Report of the

Auditor General of Canada

to the House of Commons

1990 Main Points

91-01396/

© Minister of Supply and Services Canada 1990

Cat No. FA1-1990/2

ISBN 0-662-57822-8

Preface

This is the third year we have produced this booklet of main points from the annual Report. It should be seen as one element in a continuing task. That task is to communicate clearly the results of our audits.

Our auditing has value only when we get our messages across: to Members of Parliament, to the government, to the taxpayers of Canada who provide the dollars the government spends.

The Auditor General's annual Report exceeds 700 pages of detailed information. Despite our best efforts, I recognize that it is not an easily accessible document.

This booklet has two purposes. First, it gives the main points from each of this year's chapters. Second, the paragraph references at the end of each main point permit quick access to the full Report.

The main points here are very abbreviated. When readers identify matters of interest to them, I urge them to go to the Report for the complete message.

The booklet has been well received in the past. I hope it continues to be a useful and convenient tool.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Table of Contents

Chapter Page

1. Matters of Special Importance and Interest 1

2. Observations by the Auditor General on the Financial Statements of the Government of Canada 2

Other Audit Observations

3. Audit Notes 3

4. Follow-up of Recommendations in Previous Reports 4

5. Job Classification: A Follow-up 5

Special Studies

6. The Audit Regime for Crown Corporations 6

7. Values, Service and Performance 7

8. Efficiency in Government: A Special Study 8

Government-wide and Special Audits

9. Information Security Audit 10

10. The Departments of National Revenue, Taxation and Finance - Charities, Non-Profit Organizations and the Income Tax Act 11

11. Capital Projects 13

Comprehensive Audits

12. Immigration - Management of the Immigration Program 14

13. Immigration - Foreign Delivery 16

14. Immigration - Refugees 17

15. Immigration - Control and Enforcement 18

16. Consumer and Corporate Affairs 20

17. Department of Energy, Mines and Resources - Surveys, Mapping and Remote Sensing Sector 21

Table of Contents (cont'd)

Chapter **Page**

Comprehensive Audits (cont'd)

18. Department of the Environment 22

19. Department of Indian Affairs and Northern Development - Northern Affairs Program 23

20. Department of National Defence - Human Resource Management
- Planning and Personnel Management 24

21. Department of National Defence - Human Resource Management
- Military Conditions of Service 25

22. Department of National Defence - Human Resource Management
- Training and Education 26

23. Department of National Defence - Human Resource Management
- Medical Support 27

24. Department of National Revenue, Taxation
- Enforcing the Income Tax Act 28

25. Office of the Superintendent of Financial Institutions 29

26. Royal Canadian Mounted Police
- Federal Law Enforcement 30

27. Royal Canadian Mounted Police
- Support Services to Canadian Law Enforcement Agencies 31

28. Department of the Secretary of State - Citizenship 32

29. Department of the Secretary of State
- Education Support 33

30. Department of Transport - Airports 34

* * * * *

31. Organization and Programs of the Office of the Auditor General 35

Matters of Special Importance and Interest

1.1 In this chapter, I highlight issues that I believe to be of particular importance. In this last year of my term, I look back over changes in federal government management in the eighties, and identify future challenges (paragraphs 1.8 to 1.12, and 1.32 to 1.43)

1.2 There have been significant improvements during my term, notably in Crown corporations, financial control and information to Parliament. Nevertheless, a lack of a sense of urgency which I noted in 1981 still exists in too many cases. Slow action -- or inaction -- to correct identified deficiencies leads to inefficiency, and can affect employee morale. I cite examples of good responsiveness, hoping that more departments and agencies will react in a timely manner. Computer security, among other matters, requires urgent action (1.74 to 1.111).

1.3 Particular concerns about enforcement of rules, public safety and the need for better inter-departmental co-ordination have been identified as a result of our sectoral audits (1.56 to 1.73).

1.4 The key to improved government operations is people. Supported by many examples in this year's Report, I repeat my message of last year that fundamental change -- legislative and administrative -- is necessary in the way we manage people. The government is taking important steps in this direction (1.112 to 1.128).

1.5 Comprehensive auditing has evolved over the decade in ways that I think better serve Parliament. I highlight two matters requiring attention. Reporting my audits as they are completed, rather than annually, would further enhance our service to Parliament. And the question of my access to ministers' travel expenditure information remains unresolved (1.168 to 1.176).

1.6 I conclude with personal reflections on my experience as Auditor General, and on the importance of public service (1.177 to 1.191).

Observations by the Auditor General on the Financial Statements of the Government of Canada

2.1 The audited financial statements of the Government of Canada are included in Section 2 of Volume I of the Public Accounts. These financial statements show, in summary, the government's:

- financial position - the government's cash balances and investments, together with amounts owing to and by the government at the end of the year;
- results of operations - what the government's revenues and expenditures for the year have been;
- changes in financial position - the government's cash requirements for operating and investing activities, and how these activities were financed; and,
- financial requirements - the extent to which cash going out from the government exceeded the cash coming in, and the resulting net new borrowing.

2.2 1990 is the first year an Auditor General has given an opinion without reservations on the government's financial statements since enactment of the Auditor General Act. Audit opinions in past years contained significant reservations because inappropriate accounting policies, which caused the financial statements to be misleading, had been used.

2.3 This year, the Minister of Finance and the President of the Treasury Board strengthened the government's accounting policies. As a result, I am pleased to report that the 1990 financial statements present information fairly in accordance with these policies -- the statements reliably inform Members of Parliament and others who read them.

2.4 The evolution of government accounting and reporting has been swift in the past decade. I recognize that it takes time for governments to adjust. Nevertheless, there are two matters that I believe need attention in future years.

2.5 First, the government should continue to study and implement, where applicable, recommendations of the Canadian Institute of Chartered Accountants' Public Sector Accounting and Auditing Committee.

2.6 Second, the government should present its financial statements in a comprehensive but concise annual financial report.

Audit Notes

3.1 The Auditor General Act requires the Auditor General to include in his annual report matters of significance that, in his opinion, should be brought to the attention of the House of Commons.

3.2 The Audit Notes chapter fulfils a special role in the annual Report. Other chapters normally describe the findings of the comprehensive audits we perform in particular departments; or they report audits and studies of issues that relate to government operations as a whole. The Audit Notes chapter is a compilation of individual matters that have come to our attention during our financial audits of the Public Accounts of Canada, Crown corporations and other entities. It is also used to report some specific matters that have come to our attention during the performance of our comprehensive audits.

3.3 The chapter contains a wide range of notes. Three relate to Crown corporations, and the balance to departmental operations. The three Crown corporation notes deal with allowances for potentially significant financial losses. Two notes on departmental operations deal with costly unintended income tax benefits provided by the Canadian tax system. The other notes on departmental operations generally concern expenditures of public money without due regard for economy or without adequate authority.

3.4 While the notes report matters of significance, they should not be used as a basis for drawing wider conclusions about matters we did not examine.

Follow-up of Recommendations in Previous Reports

4.1 The follow-up chapter reports on actions taken by departments and agencies in response to our past observations and recommendations. In some cases, considerable progress has been made, while in others it continues to be slow.

4.2 Information for Parliament - For the 1990/91 Part III of the Estimates, the Office of the Comptroller General issued specific suggestions and guidelines covering many of the areas we noted in our 1988 chapters. In some cases, our follow-up in departments and agencies found improvements, while in others, we found inadequacies (paragraphs 4.17 to 4.20).

4.3 Department of Agriculture - Food Production and Inspection Branch - Our review indicated that management has taken significant action on all of our recommendations. However, the Department must continue to marshall the resources and the sustained will to ensure full implementation of these recommendations (4.40 to 4.49).

4.4 Department of Agriculture - Information for Parliament - We have reviewed the systems and practices on which the Department of Agriculture relies in order to have a reasonable level of assurance that the Department's Part III is accurate, clear, consistent, and complete. We conclude that there are deficiencies in these systems and practices as currently carried out by the Deoartment, that are of concern both to us and the Department (4.50 to 4.83).

4.5 Canadian International Development Agency (CIDA) - Overall progress in implementing our recommendations has been slow. We remain concerned about the continuing weaknesses in its contracting practices (4.84 to 4.103).

Job Classification: A Follow-up

5.1 Job classification is a process for determining the relative worth of jobs. The effective design and management of the classification system are of special significance because of the system's central role in relation to the management of people in the public service, and its relationship to payroll costs. In 1988/89 public service straight-time payroll costs exceeded $7 billion (paragraphs 5.5 to 5.8).

5.2 In 1984 this Office audited the management of job classification. We reported a service-wide misclassification rate of close to 24 percent, resulting in an unwarranted annual net cost of $125 million. We made recommendations designed to improve the management and control of job classification (5.12 to 5.14).

5.3 This 1990 follow-up examined progress since 1984 and found:

- Treasury Board Secretariat and departmental monitoring and control capabilities are reported as significantly improved;
- a large number of classification standards have been revised but the delay in updating some classification standards is serious;
- progress in implementing a system of departmental benchmarks - a "key job" system - has been limited; and
- while a reduction in the rate of misclassification to 6.4 percent in 1988/89 has been reported by the Treasury Board Secretariat - resulting in an unwarranted annual net cost of approximately $5 million - weaknesses in the conduct of the audit may have affected results. There is a need for increased audit rigour (5.23 to 5.49).

5.4 The need for reform of personnel management, including job classification, is now under review as part of the Government's Public Service 2000 initiative. The need to simplify the job classification system is clear (5.16 to 5.18 and 5.50 to 5.64).

The Audit Regime for Crown Corporations

6.1 The Financial Administration Act assigns prime responsibility to Crown corporations for keeping their own books and records and maintaining appropriate systems and practices. They are to report annually on the results of their operations, their financial positions and the extent to which they have met their objectives for the year. The audit regime -- primarily internal audit, annual audit and special examination -- plays an important and constructive role in providing accountability information to the corporation, government and Parliament (paragraphs 6.10 to 6.12).

6.2 The newest component of the audit regime, special examination, has been carried out in 46 Crown corporations; this Office was responsible for 29. In most cases there were significant deficiencies reported to boards of directors. The high incidence of significant deficiencies in this first five-year cycle of special examinations should not necessarily be interpreted as a sign of overall problems, but rather may be an indication of the time needed to meet the new requirements. Moreover, generally by the time the special examination reports were being finalized, management was already planning or initiating corrective action (6.13 to 6.35).

6.3 There is one general area of concern. Many significant deficiencies were related to a lack of clearly defined objectives and to a failure to measure and report on performance. There is a real need for many Crown corporations to improve their reporting on results in relation to objectives. To do so would help considerably in closing the loop of accountability to Parliament (6.36 to 6.45 and 6.93 to 6.98).

6.4 In the majority of cases where internal audits had been carried out, the examiner relied on their results. However, there were a number of cases where reliance was not possible, either because of the nature of the work by internal audit or because, notwithstanding the requirement to do so, no internal audits had been done. The Office strongly supports effective internal audit; where a corporation can demonstrate that the benefits do not justify the cost, it should seek an exemption from this FAA requirement (6.54 to 6.60).

6.5 Over the past five years, most audit reports on the annual financial statements of Crown corporations have been without reservations of opinion and without other matters reported. This is an improvement over the period before the FAA was amended (6.78 to 6.92).

6.6 Based on the experience of this first five-year cycle of special examinations, and on a review of the results of annual audits, the Office supports this new and strengthened audit regime (6.107 to 6.108).

Values, Service and Performance

7.1 This is a study of Public Service values. Four departments participated. We interviewed 200 people across the country, including managers, staff, senior executives and politicians. We looked for insights into what helps people perform well at work, what value dilemmas prevent this, and how such dilemmas can be resolved (paragraphs 7.6 and 7.19).

7.2 Improving service and performance in the Public Service is a function not only of systems and structures, but also of people and values. Values influence which tasks people will do with care, which they will do superficially, and which they will try to avoid. The role of values has received little attention. Managers tend to give more attention to systems and structures (7.13).

7.3 We distilled three aspirations that people at all levels and locations consistently expressed. People value making a contribution; they want to make a difference, have an influence, and master some task or activity. People value being recognized and rewarded for their contribution; they look for respect and appreciation. People value belonging to a group, especially if they consider that group to be successful (7.37).

7.4 Dilemmas arise when an organization values primarily control and compliance, while its people value commitment and caring. These dilemmas between the hard and soft elements of management constrain people from achieving results (7.7 and 7.42).

7.5 We examined some work units that have resolved such dilemmas. They manage through understanding, balancing the hard and soft elements of management. They are islands of innovation. None of them was able to develop this balanced organizational culture quickly. It took five to ten years of persistent effort, sometimes over two or three generations of leaders. Ensuring continuity in leadership approach seems to be a crucial element in the survival of these islands of innovation (7.78 and 7.88).

Efficiency In Government: A Special Study

8.1 Managing with due regard to efficiency is an essential aspect of ensuring that the government is getting good value for money in the management of its operations (paragraphs 8.13 to 8.19).

8.2 Responsibility for managing with due regard to efficiency in the government is shared by central agencies and departments. Central agencies are responsible for establishing the framework for overall government operations, allocating resources, providing functional guidance and assessing government-wide opportunities to provide better service. Departments are responsible for delivering specific government programs or services with due regard to efficiency (8.24 to 8.27).

8.3 The types of problems identified in this chapter are not new. Variations on these themes have been reported before in both government-wide studies and value-for-money audits of departments. What is new, because of the government's financial constraints, is the urgency of addressing efficiency as one method to ensure that services are provided at least cost and maximum quality, while meeting the government's legislative obligations (8.11 and 8.12).

8.4 The government recently has taken a number of related initiatives designed to improve government performance, such as Increased Ministerial Authority and Accountability, and Public Service 2000. It is still too soon to review their impact on the efficiency of government operations (8.26 and 8.27).

8.5 Our study indicates that departments, using a variety of approaches, are attempting to improve efficiency. Such approaches have included changing departmental management philosophy, analysing operations, and implementing new technology. Nevertheless, many weaknesses in the way departments demonstrate that they manage with due regard to efficiency need to be addressed, by both central agencies and departments (8.60 to 8.69 and 8.82 to 8.98).

8.6 Most efficiency improvements in departments are ad hoc, without reference to a management plan. Some efficiency improvements have been achieved but information on them is not widely shared (8.79 to 8.98 and 8.47 to 8.56).

8.7 Departmental reporting and accountability documents used for overall government resource allocation contain little information on efficiency. Planning is largely driven by the budget process, without adequate information on managing with due regard to efficiency (8.32 to 8.46).

8.8 Recognition and reward systems to encourage employee performance need to be further improved. Opportunities to significantly improve efficiency will be missed unless the public service can instill management values and attitudes designed to encourage employees to work to their potential (8.70 to 8.78 and 8.57 to 8.59).

8.9 Relevant cost and performance data is, for the most part, unavailable or underutilized. Expenditures for administrative and support functions are inconsistently recorded and inadequately disclosed, making it difficult to formally assess how recent budgetary cutbacks have affected overhead costs and efficiency (8.99 to 8.107).

8.10 Any formal assessment of due regard to efficiency must rely on information related to costs and performance. Except for a few instances, the quality of information on efficiency has not improved since 1987, when we reported that it was poor (8.108).

Information Security Audit

9.1 Over the last five years an explosion of growth in the use of computers has increased the opportunity for fraud, damage and abuse, and has left the government vulnerable to theft of the computer information under its stewardship. The 1986 Government Security Policy, which represented a major step forward, requires that the government appropriately safeguard all classified and sensitive information under its control. Our audit focussed on the security of sensitive computer information, excluding the information that is classified for reasons of national security. We included central and lead agencies as well as 13 sample departments (paragraphs 9.6 to 9.28).

9.2 The threats to government information systems are real. During a recent four-month period there were 21 reported incidents of viruses infecting several hundred government microcomputers. In the same period there was a security incident involving the infestation of 28 microcomputers on Parliament Hill. We also noted that overall there had been illegal penetration of computer systems, and incidents of damage to computer facilities caused by disgruntled employees (9.14 and 9.15).

9.3 In our opinion departments and agencies have been negligent in their lack of formal and comprehensive contingency planning. The RCMP has been advising Treasury Board Secretariat for over ten years about the lack of a concerted effort by departments to address contingency planning. Almost all departments in our sample had not assessed the threats and risks to their computer systems. Not knowing how vulnerable they are, departments may not be taking adequate steps to protect their systems. The government is exposed in areas such as protecting information, collecting revenue and providing continuity of service to the public. There is no assurance that the government could continue to deliver all its essential services in the event of a major technological failure or disaster (9.53 to 9.67).

9.4 Until March 1990, when Treasury Board Secretariat offered to assume the role, there was no clear focal point to provide ongoing co-ordination and leadership for information security. There are still overlaps, gaps and fragmentation in the lead agencies' activities supporting information security. No single agency is assigned as the lead for assessing threat and risk, or for contingency planning or training. Government-wide monitoring is weak, and reporting on security in departments is incomplete (9.32 to 9.52 and 9.68 to 9.69).

9.5 Very few of the issues reported in this chapter are new or unknown to departments and agencies. It is our view that government should make a concerted effort to address information security. Central leadership and co-ordination must be improved. Deputy heads of departments should pay more attention to security, and be held accountable for correction of the deficiencies noted in this audit (9.30 and 9.31 and 9.70 to 9.77).

The Departments of National Revenue, Taxation and Finance

Charities, Non-Profit Organizations and the Income Tax Act

Registered Charities

10.1 A vast network of devoted volunteers contributes to and significantly supports our social infrastructure in Canada. Without volunteers, much of the work they do would fall to municipal, provincial and federal governments (paragraphs 10.12 and 10.13).

10.2 The principal vehicle for government encouragement of charity has been the Income Tax Act. Registration under the Act gives charities two significant tax advantages -- exemption from taxation and the ability to issue tax-deductible or tax-creditable receipts for donations they receive. This represents an estimated annual cost of $820 million in foregone revenue (10.14 to 10.16).

10.3 More than 31 percent of the 63,000 registered charities do not file their returns on time. Although the Department of National Revenue, Taxation had been advised by its legal services division that it did not have the authority to waive the late-filing penalty imposed under subsection 162(7) of the Income Tax Act, it has never applied it. Doing so would have yielded as much as $49 million a year. However, the Department has revoked the registrations of certain charities which had failed to file; in 1989/90, 633 charities were so penalized. In addition to making recent administrative improvements, the Department has advised us that penalties are one of the principal areas of study in its current review of charities (10.39 and 10.55 to 10.59).

10.4 For other contraventions of the Act (excluding fraud), the only sanction available is the ability to revoke registration. Because charities are often operated by volunteers, non-compliance may sometimes be the result of an oversight. Thus, the Department uses discretion in applying this sanction, and attempts to resolve problems or accepts an undertaking to comply in future (10.39 and 10.74 to 10.82).

10.5 Each year more than 63,000 charities may provide receipts for tax deductions or credits; more than 4.9 million taxpayers claim tax credits. The Department of National Revenue, Taxation does examine donation receipts, but it has not established an adequate compliance program to determine their validity (10.86).

10.6 The provisions of the law pertaining to allowable business activities of charities are unclear and charities are able to circumvent them (10.89 to 10.95).

10.7 Reliable information is not always available to the public through the Public Information Return (10.107 to 10.114).

Registered Charities (cont'd)

10.8 To obtain the information needed to improve the level of voluntary compliance and to improve tax legislation and regulations, the Department of National Revenue, Taxation should extend its practices to include a program to measure compliance by registered charities (10.116 to 10.119).

Non-Profit Organizations

10.9 In 1986 there were an estimated 60,000 incorporated non-profit organizations in Canada; the number today is not known. There is no legislative requirement for registration; each organization may determine whether it qualifies as a non-profit organization under the Income Tax Act. Unlike registered charities, there are no annual filing requirements for non-profit organizations except those that are incorporated or are trusts. Consequently the Department of National Revenue, Taxation has no effective check on their right to enjoy exemption from taxation (10.125).

10.10 It is possible for a shareholder of a non-profit corporation to benefit personally from the corporation's tax exempt status. It is also possible for federal, provincial or municipal entities to use their non-profit status to pass on tax concessions to private sector companies (10.129 to 10.134).

Departmental Initiatives

10.11 The Departments of National Revenue, Taxation and Finance are presently carrying out comprehensive reviews of the legislative and administrative framework governing registered charities and non-profit organizations. We have been advised that matters raised in our report are being considered in the course of the reviews (10.29).

Capital Projects

11.1 We examined seven projects ranging from $10 million to $50 million. We found that in many cases planning times were long, with a commensurate increase in project costs (paragraphs 11.12, 11.23, 11.31, and 11.44).

11.2 Whereas the project was completed on time and under budget, we found that the tenants of One Front Street in Toronto exceeded Treasury Board's approved levels for interior fit-up at a total additional cost of $3.4 million. Changes in tenant mix and related changes in user requirements contributed to the increased costs (11.14 to 11.20).

11.3 Saskatoon was selected as the site of the new National Hydrology Research Centre, based in part on the opportunity to use existing university facilities. However, some of these facilities were duplicated at the Centre at a cost in excess of $300,000. A special laboratory and associated office space were designated at the Centre for a Crown corporation at an estimated cost of $850,000. The corporation has no plans to occupy the lab (11.26). The Department of the Environment has actively been seeking suitable tenants to improve the utilization of available space at the Centre (11.27).

11.4 Four forestry centres, at Victoria, Sault Ste. Marie, Ste. Foy and Fredericton, were initially estimated to cost $4.2 million, $1.8 million, $5.8 million and $18.5 million respectively. Final costs were: Victoria $12.2 million; Sault Ste. Marie $16.8 million; Ste. Foy $19.7 million; and Fredericton $30 million -- increases of up to nine times the original estimates. Although some of this escalation could be attributed to inflation, most was due to changing needs, refined requirements or inaccurate initial estimates (11.12, 11.31, 11.37, 11.43, and 11.48).

Immigration

Management of the Immigration Program

12.1 Canada is in the forefront of nations whose economic, social, and cultural development has been and continues to be influenced by immigration. Given the importance of this role, the complexity of the program, the benefits derived and the extensive costs involved, the successful management of the Immigration Program is of profound significance (paragraph 12.10).

12.2 The size of the Immigration Program operation is substantial. Over 100 million people enter Canada each year, all of whom must be questioned and whose identity must be established. About 500,000 are visitors requiring visas; a further 200,000 are immigrants that must be interviewed and checked for health and security before acceptance. Canadian immigration policy is to facilitate the admission of those with legitimate reasons for entry, but to deny entry to those who do not meet our criteria (12.13 to 12.19).

12.3 Increasing migration pressures, the introduction of the Canadian Charter of Rights and Freedoms, representations on specific cases by elected representatives, non-government organizations and private citizens, as well as immigration agreements with provinces, are important factors affecting the management and delivery of the Immigration Program (12.16 to 12.31).

12.4 While we recognize the difficulties caused by these factors, this sectoral audit has led us to conclude that Employment and Immigration Canada (EIC) has not exercised fully the co-ordinating and monitoring roles required by its legislative mandate and expected from the accountability placed on its Minister regarding the Immigration Program. Roles, responsibilities, and accountabilities have not always been clearly established for certain important aspects of the program (12.37 to 12.48).

12.5 Our examination revealed that, for the last three years, the actual number of immigrant landings significantly exceeded the range announced each year to Parliament. This has an impact on immigrant settlement activities and raises questions about adherence to the intent of the Act and the accountability of management (12.49 to 12.59).

12.6 While EIC and the other departments and agencies have implemented training programs for personnel carrying out immigration activities, some employees are not adequately trained and there is no assurance that they possess the knowledge and skills necessary to discharge their duties (12.60 to 12.70).

12.7 Our examination also revealed that achievements have been made in cost-recovery. User fee revenues, however, represent only a minor proportion of the costs of providing immigration services. Opportunities exist to recover a higher proportion of immigration costs (12.71 to 12.82).

12.8 The effectiveness of certain vital components of the Immigration Program, such as selected workers, family class and designated classes, as well as health and security controls, has never been evaluated (12.83 to 12.88).

12.9 The information on immigration presented in Part IIIs of the Main Estimates is incomplete and fragmented. The lack of data on costs and results does not give members of Parliament an overall picture of the performance of the Immigration Program and its resource requirements (12.89 to 12.97).

Immigration

Foreign Delivery

13.1 The Department of External Affairs (DEA) processes immigrant and visitor visa applications abroad. Employment and Immigration Canada, in consultation with DEA, determines the total number of immigrants to be processed abroad. In 1989, DEA issued 187,000 immigrant visas and 599,000 visitor visas (paragraphs 13.8 to 13.11).

13.2 Although DEA's visa officers and staff endeavour to provide immigration services to prospective immigrants and visitors in a dedicated way, the efficiency and operational effectiveness of the foreign delivery system need improvement in four areas.

13.3 **Exceeding targets**. Substantially more immigrant visa applications than are needed to meet the planned immigration target are being processed at missions abroad. This has for the third year in a row resulted in significantly exceeding the overall immigration level announced in Parliament. As such, the extensive consultation process within Canada for establishing this level of immigration is brought into question (13.26 to 13.36).

13.4 **Service to visa applicants**. The length of time it takes to arrive at a decision to grant or refuse an immigrant visa varies significantly year after year and from mission to mission. This raises the question of consistency in service provided to applicants (13.37 to 13.48).

13.5 **Efficiency norms needed for resource allocation**. The amount of immigration staff time used to process visa applications varies so widely among missions that the Department does not have reasonable assurance that the number and location of visa officers posted abroad is appropriate (13.37 to 13.48).

13.6 **Opportunities for improving use of resources at missions**. The operating efficiency of the program delivery system could be significantly improved by more automation, reduced paper burden, increased use of locally engaged program staff, a better link between the level of risk and the decision to hold or waive time-consuming interviews with applicants and more efficient medical screening procedures (13.59 to 13.89).

13.7 **Overall conclusion**. DEA could maintain the 1989 target level of applications with fewer resources assigned to immigrant processing. Alternatively, a greater number of visas from abroad could be achieved with the existing level of resources devoted to visa processing at missions.

Immigration

Refugees

14.1 At the end of 1988, a backlog of some 85,000 unprocessed claims had accumulated in the refugee status determination system. Moreover, the procedures in place did not provide effective means of dealing quickly and conclusively with claims that obviously had no merit. The system was extremely prone to large-scale abuses and became overloaded by a growing number of claims that compounded existing delays (paragraphs 14.13 and 14.14).

14.2 The amendments to the Immigration Act implemented on 1 January 1989 were intended to streamline the processing of refugee claims, to continue to offer protection to those who are really threatened in their country of origin, and to deter claimants who do not need Canada's protection or whose assertions are unfounded (14.15).

14.3 Our examination revealed that some important measures aimed at controlling the misuse of the process had either not been implemented or were not operating as intended. As a result, Canada may eventually find itself in a situation similar to 1988, when the number of claims greatly surpassed the processing capacity of the system (14.32 to 14.48).

14.4 After 15 months of operation, the new process requires adjustments to accelerate claims processing and improve the efficiency of operations. Problems with adjournments and scheduling of hearings reduce the optimal utilization of adjudicators' and Immigration and Refugee Board members' time. Both Employment and Immigration Canada and the Immigration and Refugee Board have initiated corrective measures in these areas (14.49 to 14.60).

14.5 We believe that significant savings could result from streamlining procedures regarding first hearings in cases not contested by the Minister of Employment and Immigration (14.61 to 14.66).

14.6 Our examination revealed that the training of Employment and Immigration Canada's case-presenting officers was deficient. Also, there was no effective control over the qualifications, security status, and possible conflict of interest of interpreters (14.67 to 14.72).

14.7 Significant processing delays were occurring in the backlog clearance program as at 31 March 1990. The program was suffering from the same problems as the new refugee status determination process. Unless inefficiencies are corrected and productivity is improved, the backlog clearance program will cost more than estimated and will end later than the target date announced (14.76 to 14.82).

14.8 Our examination also revealed that controls regarding health and security protection of Canadian residents have not always been implemented in a timely manner (14.83 to 14.87).

Immigration

Control and Enforcement

15.1 The Canadian immigration control and enforcement system is structured around three main intervention points: overseas screening, port of entry examinations, and inland control and enforcement. The main objectives of control and enforcement activities are to identify inadmissible persons and prevent their entry into Canada; to control the stay of those who are allowed temporary entry; to detain persons who pose a security risk or a serious criminal threat; and, normally, to remove from Canada persons in contravention of the Immigration Act or Regulations (paragraphs 15.13 and 15.14).

15.2 The challenge represented by these objectives is a daunting one. The judicial nature of the process, the high number of appeals of immigration decisions, the pressure exerted by numerous organizations and the volume of activities have a serious impact on the extent to which immigration control and enforcement objectives are reached (15.17 and 15.18).

15.3 Our audit raises concerns about the operational effectiveness of key control and enforcement activities (15.25 and 15.26).

15.4 At the Primary Inspection Line (PIL), the initial checkpoint at Canadian ports of entry, lookout information for identifying persons deemed inadmissible was not effectively used. Training of customs officers in immigration matters was limited and inconsistent. We found that the management control of the PIL had been weakened by the lack of a performance measurement system on immigration matters and limited feedback information on referrals (15.27 to 15.55).

15.5 We found that the results of security screening activities need to be evaluated. Even where reports provide reasons for inadmissibility, few of them result in rejections, and there is no assurance that criminal checks are complete. We found also that medical screening activities lack the control standards necessary to ensure compliance with the Act in preventing entry of persons who would pose a danger to public health or create excessive demands on Canadian health and social services (15.56 to 15.82).

15.6 Our examination further revealed that terms and conditions are not imposed consistently when landing entrepreneurs. Also the majority of entrepreneurs landed with terms and conditions are not required to provide evidence of compliance. Entrepreneurs in breach of conditions have not been removed (15.93 to 15.101).

15.7 Our examination of immigration enforcement procedures revealed that, in spite of improvements since 1989, a serious backlog of investigations still exists in one region and the efficiency in this area needs to be improved. There are long delays in obtaining necessary relevant information from the Canadian Police Information Centre files and other sources (15.108 to 15.120).

15.8 In the majority of cases involving refugee claimants, removals are either delayed or cancelled due to a variety of reasons, which include appeals, temporary suspensions of removals to countries experiencing conditions of war or civil strife, and other humanitarian and compassionate grounds. This has afforded assurance of a protracted stay in Canada for most claimants. We question the economy, efficiency and operational effectiveness of a process where the carrying out of enforcement actions is the exception rather than the rule (15.121 to 15.128).

15.9 Our examination also revealed inefficiencies resulting from the use of Minister's permits to grant temporary status to persons who have violated the provisions of the Immigration Act or who are inadmissible to Canada (15.129 to 15.142).

15.10 Finally, our audit of the Field Operations Support System, a key source of information for immigration officers, indicated that access to the system was unreliable and that the data supplied was incomplete and sometimes misleading (15.144 to 15.152).

15.11 EIC has made significant efforts to overcome the challenges of the program in several of the areas discussed above, including a new immigration security screening project and a review of medical inadmissibility policies and procedures. We believe, however, that implementation of our recommendations would greatly assist EIC in achieving its control and enforcement objectives in a cost-effective manner (15.74 and 15.82).

Consumer and Corporate Affairs

16.1 The Department of Consumer and Corporate Affairs is responsible for a number of federal statutes that are designed to promote the fair and efficient operation of the marketplace in Canada. During our audit we examined the implementation of six major Acts administered by the Department (paragraphs 16.7 and 16.8).

16.2 We found that the Bankruptcy Act is outdated. The current Act was enacted in 1949 and last amended in 1966. There have been numerous calls for revising the legislation. The Bankruptcy Branch has adopted administrative remedies in the absence of legislative direction. In our opinion, it is important that changes to the Act be considered (16.14 to 16.23).

16.3 In other areas, we found that the service levels in a number of key departmental programs have decreased over the past years. For example, it now takes about 30 percent longer to issue a patent than it did five years ago (43 months versus 33) (16.26 to 16.30). The proportion of misleading advertising complaints of substance that are investigated has declined from 22 to eight percent over 10 years (16.72 to 16.76). And the anticipated time between the periodic inspections of weighing and measuring devices varied from two to nine or more years in certain areas of the country (16.93 to 16.95).

16.4 We found that management practices in parts of the inspection programs for weighing and measuring devices and for electricity and gas meters needed to be improved. Management had not fully clarified its obligations under the legislation (16.88 to 16.92 and 16.109 to 16.112), some inspection activities were poorly targeted (16.97 to 16.101), and meter inspectors were not provided with adequate guidance on how to conduct certain inspections (16.113 to 16.116).

16.5 The Bureau of Competition Policy is developing public guidelines on the merger review process under the Competition Act. We found that the Bureau needed to develop procedures for selecting mergers for detailed examination. It also needed to provide staff with complete procedures for conducting these examinations (16.57 to 16.68).

16.6 The accountability information submitted by the Department to Parliament needed improvement in terms of the accuracy of some of the information presented and the disclosure of program areas that are encountering problems (16.139 to 16.142).

Department of Energy, Mines and Resources

Surveys, Mapping and Remote Sensing Sector

17.1 We audited the Surveys, Mapping and Remote Sensing Sector of the Department of Energy, Mines and Resources. In general, we found appropriate operational management systems in place or being set up throughout the Sector. We saw signs that the Sector was starting to co-ordinate issues common to several of its Centres, such as the management of research and development projects. The Sector has also taken a leadership role in co-ordinating geomatics activities at the federal level and in developing co-operative programs with the provinces. Since our last audit in 1982, the Sector has made major changes -- such as creating the Canada Centre for Geomatics in Sherbrooke, contracting more work out to industry, and amalgamating the remote sensing with the surveying and mapping organizations. In dealing with these issues, the planning for some others was deferred, in particular the development of the rationale for the National Topographic Data Base (NTDB). The NTDB attempts to deal with the question of how to produce or revise paper maps efficiently, while meeting the emerging need for digital map information. It is an expensive, long-term development affecting all parts of the Sector. Although the Sector has undertaken a number of studies, we could not find adequate plans and analysis guiding the development of the NTDB and substantiating its contribution to the Sector's objective in Part III of the Estimates (paragraph 17.7).

17.2 The sector has spent about $33 million on the NTDB since 1980, and estimates it will spend a further $95 million by the year 2000 (17.22).

17.3 Although the Sector is aware of the factors that could have an impact on the success of the NTDB, we have not seen evidence that the effects have been thoroughly analysed, or that the use of the data will justify the cost. Thus, we believe a more specific rationale and analysis of options should now be prepared (17.24).

Department of the Environment

18.1 The Department's program evaluation coverage is inadequate; it has evaluated less than 10 percent of its programs. For example, it has not evaluated any of the Canadian Parks Service programs even though it has half the Department's person-years and a $387 million budget (paragraphs 18.28 to 18.33).

18.2 The deficiencies in coverage could have serious environmental consequences. The Ocean Dumping and Marine Program evaluation was not done until 1988, 13 years after the program was implemented. The evaluation indicated serious problems that may have existed since the program's inception (18.39 to 18.43).

18.3 The quality of the evaluations that are done is inadequate; of the five examined, only the Ocean Dumping and Marine Program was satisfactory. This raises questions about the extent to which management and Parliament can rely on the findings of the Department's evaluations that are supposed to measure the effectiveness of the Department's programs (18.34 to 18.38).

18.4 Serious deficiencies in the effectiveness of the Ocean Dumping and Marine Program were significantly understated when presented to Parliament in Part III of the 1990/91 Estimates (18.44 to 18.46).

18.5 Co-ordinated environmental action, including enforcement by all levels of government, is difficult. This is due in part to the jurisdictional complexities of federal and provincial responsibilities deriving from Canada's constitution. Within the federal government, responsibilities for environmental matters rest with many departments and agencies. This raises the question both of the role of the Department of the Environment and of which level of government is ultimately responsible for Canada's environmental well-being (18.50 to 18.59).

18.6 The Canadian Environmental Protection Act of 1988 provides for agreements to be negotiated between the federal and provincial governments concerning the regulation and enforcement of toxic substances. No agreements had been signed when this report was written (18.64 to 18.67).

18.7 In one area where the federal government has already delegated monitoring and enforcement authority to the provinces, there has been a serious deterioration in compliance. A review of the metal mining liquid effluent regulations, issued under the Fisheries Act, indicates that compliance fell from 85 percent in 1982 to 48 percent in 1988. Nine out of 20 mines not complying in 1988 exceeded the standards by 200 percent (18.71 and 18.72).

18.8 The Minister of the Environment is required to report annually to Parliament on the administration and enforcement of the Canadian Environmental Protection Act. No report had been presented from the time the Act was proclaimed in June 1988 until 30 June 1990 when we wrote this report (18.74 and 18.75).

Department of Indian Affairs and Northern Development

Northern Affairs Program

19.1 The Department of Indian Affairs and Northern Development (DIAND) is responsible for managing all Crown lands and natural resources in the Yukon and Northwest Territories. These lands comprise 40 percent of Canada's land mass and are home to about 79,800 Canadians. Although the DIAND Act clearly assigns the responsibility for managing the North to the Department, DIAND's transfer over the years of provincial-type programs to the territorial governments has made it difficult to hold the Department fully accountable for how it discharges this responsibility. To carry out those programs, DIAND transferred $825 million to the territorial governments in 1988/89 (paragraphs 19.6 to 19.14).

19.2 DIAND has not established a framework for evaluating the effectiveness of the land claims settlements. If the settlements listed in paragraph 19.29 are all ratified, the financial compensation and implementation costs will exceed $1.9 billion (19.32 and 19.30).

19.3 DIAND does not have any approved land use plans, despite having incurred expenditures of over $20 million for this purpose since 1981. The Department continues to spend over $5 million annually on this planning program (19.39 to 19.42).

19.4 Although DIAND does have some information on water quantity, it has comparatively little on water quality. DIAND does not carry out water licence inspection and enforcement vigorously. Several significant water contaminations persist (19.55 to 19.88).

19.5 Revenues from mineral activities are well below their potential. Rates for mining fees and rentals have not changed for over 60 years, and the royalty for gold placer mining is based on a gold value of $15 per ounce, which is far below the current worth of gold (19.105 to 19.107).

Department of National Defence

Human Resource Management Planning and Personnel Management

20.1 Military institutions have differences from public sector or private organizations that require unique approaches to human resource management (HRM) to accommodate their needs (paragraphs 20.8 to 20.18).

20.2 In each of the areas we examined as part of our audit of HRM in the Department of National Defence (DND) -- planning and personnel management, conditions of service, training and medical support -- we identified deficiencies, namely:

- The HRM system is not suitably designed for conditions of combat or war and has shown significant shortcomings during exercises simulating wartime conditions (20.35 to 20.45).
- There are significant opportunities for improvement and cost savings in the day-to-day management of DND's human resources (20.41 to 20.44 and Chapters 21, 22 and 23).
- As we reported in 1984 and 1987, the Department still needs a longer-term focus to guide HRM and other departmental activities (20.32 to 20.34).

20.3 In the area of military personnel management - a major and critical sub-component of the HRM system -- we found that:

- it is not designed or managed as an integrated system (20.46 to 20.55);
- effective management tools and processes are needed to understand and manage the dynamics of the personnel management system (20.48 to 20.51); and
- the merit assessment process could be made more efficient and cost-effective (20.56 to 20.59).

Department of National Defence

Human Resource Management
Military Conditions of Service

21.1 Conditions of service include pay, benefits and allowances received by members of the Canadian Forces, as well as a wide range of services and supplemental benefits intended to adjust for special conditions, or to develop commitment and an ethos. There are over 170 elements, many of which are intended to respond to the unique nature of a career in the military. Within conditions of service, expenditures on military pay and allowances alone amounted to $3.3 billion in 1989 (paragraphs 21.6 to 21.11).

21.2 As with the other functions of the human resource management system, conditions of service underwent dramatic changes with the unification of the forces. The processes now in place to determine and adjust conditions of service are a result of changes that have been made over the last two decades in the absence of clear policies and plans (21.11 to 21.34).

21.3 The result has been a fragmented policy on conditions of service, and the isolation of elements from each other and from the Department's goals to attract, retain and motivate personnel (21.15 to 21.43).

21.4 We are concerned about many aspects of the equity, relevance, and purpose of elements that are now in place. We also question the validity and efficiency of many of the management processes (21.17 to 21.35).

21.5 We recommend a fundamental systemic review of conditions of service. We also recommend that the processes used to manage them, including the DND/Treasury Board Secretariat relationship, be reviewed and modified (21.35 to 21.44).

Department of National Defence

Human Resource Management Training and Education

22.1 An extensive network of schools, colleges, and specialized training facilities provides the training and education that Canadian Forces personnel require in peacetime. In wartime, this same network must be able to supply large numbers of adequately trained individuals on a sustained basis to replace casualties and to support expansion (paragraph 22.6).

22.2 We found that opportunities exist for increasing the efficiency of the training system. According to trainees surveyed, 27 percent of the individual training delivered by the Canadian Forces Training System was for tasks the individuals could already perform, and another 35 percent was for tasks that were not performed on their next job. The value of the training involved is about $165 million annually. Some of these costs could be reduced by methods such as pre-course screening, more on-the-job training, or eliminating unnecessary training. There are opportunities to contract out training (22.13 and 22.31).

22.3 The Canadian Armed Forces must provide language training to large numbers of candidates, in an environment where members change positions every two to five years. The official languages training program has cost $500 million, including student's salaries, since 1980. We found that there is a need to redefine the number of bilingual positions and linguistic requirements needed to fill them, as a basis for determining language training goals. Language training could be made more productive by screening students on the basis of their ability to learn, and by posting graduates to jobs where they will use their second language. Language proficiency levels for positions that are now established are not related to job requirements (22.32 and 22.57).

22.4 Professional development programs need to be strengthened. Military colleges are costly, and their enrolment has not been based on the needs of the Canadian Forces. The Department estimates that its requirements could be met with two colleges rather than three. The Canadian Forces has not defined the education and training needed by senior and general officers (22.58 and 22.70).

22.5 The Department has improved the acquisition of training infrastructure as part of major weapons system acquisitions. We did, however, identify some problems in the projects we examined. There is a shortfall in the training infrastructure that has resulted in operational deficiencies and in a significant backlog of projects to replace training equipment (22.71 and 22.77).

Department of National Defence

Human Resource Management Medical Support

23.1 A medical support system is a critical component of the Canadian Armed Forces (paragraphs 23.5 and 23.6).

23.2 The medical support system was not designed to meet wartime requirements. It has evolved to meet primarily peacetime needs. Current deficiencies call into question the Canadian Forces' ability to provide a complete and continuous system of medical support in time of war (23.21).

23.3 Compared with similar civilian hospitals, the use of military hospitals is low and the cost per patient-day high, in large part because military hospitals are staffed to meet levels that far exceed actual rates of occupancy (23.22 to 23.29).

23.4 The Department needs to determine the minimum level of medical resources that could be expanded to meet wartime needs. It should examine alternatives for improving efficiency, such as increased reliance on reservists, use of civilian hospitals for more specialized requirements and adjusting staff to correspond to numbers of patients (23.26 and 23.36).

Department of National Revenue, Taxation

Enforcing the Income Tax Act

24.1 A significant amount of taxable economic activity in Canada goes untaxed. The Department devotes one-third of its resources to enforcement activities. These activities resulted in more than one billion dollars of additional tax assessments in 1989/90 (paragraphs 24.6 to 24.13, 24.31 to 24.35 and 24.37).

24.2 Audits and other manual enforcement actions are taking longer in recent years. At the same time, coverage of the population has declined to such a low level that it is a cause for concern whether enforcement currently acts as an effective deterrent to non-compliance (24.17 to 24.30 and 24.36).

24.3 Improvements in productivity and coverage are possible. Computer matching and reporting requirements can be expanded, better methods can be used to select taxpayers for enforcement action, and greater use can be made of technology (24.38 to 24.65).

24.4 The Department is not adequately equipped to ensure the availability of the right number and quality of human resources in the face of very challenging circumstances. However, management has developed a detailed plan of action to address many human resource problems (24.66 to 24.80).

24.5 Information on enforcement resources and results in Part III of the Estimates is incomplete and inconsistent (24.81 to 24.93).

Office of the Superintendent of Financial Institutions

25.1 The Office of the Superintendent of Financial Institutions (OSFI), established in 1987, has made considerable progress in implementing an effective supervisory framework for deposit-taking institutions. Among its initiatives are the upgrading of its professional staff, the establishment of better working relationships with boards of directors, external auditors, and industry and professional associations, and the development of detailed examination procedures in certain key areas (paragraphs 25.4 and 25.17 to 25.21).

25.2 In spite of this progress, further important improvements are needed. OSFI is already taking steps to deal with many of these challenges. For instance, it needs to ensure that:

- its procedures for monitoring the ongoing operations of institutions are fully in place (25.28 to 25.42);
- particular attention is paid to upgrading the risk assessment processes in annual examinations (25.43 to 25.65);
- procedures for assessing risks to institutions from their securities subsidiaries are fully implemented (25.57 to 25.62);
- procedures and practices for reliance on external and internal auditors are clarified and strengthened (25.66 to 25.76);
- procedures for testing institutions' compliance with applicable legislation, regulations and guidelines are improved (25.82 to 25.86);
- priority is given to achieving better co-ordination of activities with the Canada Deposit Insurance Corporation (CDIC) and, as appropriate, with provincial regulators (25.87 to 25.95); and
- immediate attention is given to developing staff training plans and providing the necessary training (25.101 to 25.106).

25.3 OSFI has generally satisfactory procedures for regulatory policy development and rendering rulings on the interpretation of legislation and guidelines. It has made progress in establishing corporate planning and human resource management practices (25.97 to 25.100 and 25.108).

Royal Canadian Mounted Police

Federal Law Enforcement

26.1 In drug enforcement, there is no formal agreement or joint planning between the RCMP and Canada Customs. They follow different strategies at ports of entry and are unable to co-operate fully, which may impair the ability to disrupt large-scale drug operations (paragraphs 26.32 to 26.42).

26.2 Both the RCMP and Canada Customs have responsibility for enforcing the Customs Act. However, although there is a signed agreement, they operate as two independent, separate enforcement agencies for the same Act (26.49 to 26.56).

26.3 The RCMP needs to improve its interdepartmental relationships by having:

- agreements that define respective roles and responsibilities;
- joint planning processes that determine unified enforcement strategies, goals and priorities as well as resource levels and performance standards; and
- regular feedback on performance to client departments (26.26).

26.4 The RCMP has not resolved longstanding deficiencies in its management information systems. The systems are unable to provide RCMP management and client departments with essential performance data (26.90 to 26.94).

26.5 The RCMP's customs and excise and economic crime programs have been affected by a high personnel turnover. One effect of excessive turnover is the lack of job-specific experience, cited by the RCMP as the main complaint of client departments (26.95 to 26.101).

26.6 Numerous studies over the last 15 years have identified, but failed to rectify, various deficiencies in the federal law enforcement system in Canada. The RCMP's effort will resolve some of the issues. However, many fundamental problems, such as the need to clearly define the RCMP's role, still exist. These will require either direction or intervention by the government (26.109 to 26.115).

Royal Canadian Mounted Police

Support Services to Canadian Law Enforcement Agencies

27.1 The RCMP assists upon request over 400 Canadian law enforcement agencies by providing certain specialized services such as police training, forensic laboratory tests, fingerprint identification and a computerized law enforcement information system. These services contribute to the effectiveness of law enforcement across Canada (paragraphs 27.5 to 27.8).

27.2 Users have been generally satisfied with the level, type and quality of support services they have received from the RCMP (27.33 to 27.35, 27.49 and 27.106). However, our audit of the four RCMP entities providing these services indicated:

- Forensic Laboratory Services is currently replacing some of its older full-service laboratories with new full-service laboratories. In doing so, it has failed to consider more economical options such as a combination of full-service and limited-service laboratories (27.25 to 27.31).
- While the Canadian Police Information Centre has a number of system controls in place, it would benefit from an enhanced level of knowledge and control concerning the level of potential data misuse (27.56 to 27.58).
- The Canadian Police College has not made the necessary long-range curriculum and program adjustments. As a result, it has continued to provide a virtually unchanged curriculum and may not be fulfilling its intended mandate (27.68 to 27.72).
- Identification Services has not always provided the users of its services with the necessary level of information and participation to ensure services which meet user requirements (27.79 to 27.97).

27.3 Despite the fact that a number of these services are interrelated and complementary, they have evolved uniquely and operate independently. Each organization has defined differently its level of service and applicable limiting conditions. These services need a consolidated operating philosophy and a more integrated vision for the future (27.100, 27.101, 27.107 and 27.108).

27.4 User participation is vital to the success of service-oriented organizations. Currently, there is no consistent approach concerning user participation and input. Two of the service areas have advisory committees but the other two do not. Greater user participation is needed as an input to the design, development and operation of these services (27.33, 27.47, 27.67, 27.81 to 27.83 and 27.95).

Department of the Secretary of State

Citizenship

28.1 The Citizenship Act is difficult to administer, due to a lack of clarity in certain sections. Since 1985, the Department has considered amendments; however, as of 1 April 1990 no amendments had yet been tabled in the House of Commons (paragraphs 28.22 to 28.26).

28.2 Numerous changes are needed to the processing of applications for citizenship and proof of citizenship, such as an established standard turnaround time, better resource allocation, and improvements to the system of processing, to make operations more efficient and timely (28.37 to 28.53).

28.3 An increase in the time taken to issue proofs of citizenship resulted in a corresponding increase in the issue, free of charge, of Canadian citizenship confirmation letters. More than 10,000 confirmation letters were issued in 1989/90, causing a disruption to the processing of citizenship applications as well as carrying a risk that they may be fraudulently used (28.54 to 28.56).

28.4 A 13-month delay in implementing progressive increases in fees for citizenship services will have resulted, during the period 1988/89 to 1991/92, in foregone revenues of approximately $2.7 million (28.77 to 28.81).

28.5 The approval process for Citizenship Development grants and contributions is time-consuming and cumbersome. Approximately 20 percent of Native Friendship Centres financed by the Citizenship Development Program did not meet one of the program eligibility criteria, that of being located in an urban area (28.96 to 28.104).

28.6 As of 1990/91, Part III of the Estimates for Multiculturalism and Citizenship does not separately provide the operating costs of Citizenship Registration, making it impossible to know the total cost of this activity. Moreover, information on performance for Citizenship Registration and Promotion and for Citizenship Development activities is not disclosed (28.106 to 28.109).

Department of the Secretary of State

Education Support

29.1 There are no clear objectives for support to post-secondary education (paragraphs 29.21 to 29.27).

29.2 The Department is not adequately discharging its mandate for federal co-ordination of support to post-secondary education (29.29 to 29.31).

29.3 Information to Parliament on post-secondary education is incomplete (29.39 to 29.44).

29.4 There appears to be a lack of a sense of urgency to correct deficiencies in the Canada Student Loans Program. Although management has taken some corrective measures, significant deficiencies which were previously identified in the management of the Program remain unresolved (29.51 to 29.59). The Program is therefore not managed with due regard to economy and efficiency and in compliance with the Act, as the following examples illustrate:

- The Department has devoted seven years and invested $5 million in the redesign of a computer system that is not operational (29.52).
- Between 1984/85 and 1988/89, authorized loan allocations were exceeded by an estimated $264 million (29.64 to 29.67).
- Each year, approximately $15 million in loans is disbursed to students who have dropped out of school. Failure to recover these amounts at the time of withdrawal results in extra costs to the Program, estimated at $10 million annually (29.86 to 29.91).
- One out of six students defaults on his or her loan. Since the Program began in 1964, the federal government has reimbursed lending institutions $858 million in claims for defaults on payment; only $297 million has been recovered from students -- a recovery rate of 35 percent. Loans receivable amounted to 24 percent of the non-tax revenue receivable by the Government of Canada as of 31 March 1989 (29.92 to 29.107).

29.5 Information to Parliament on the Canada Student Loans Program is incomplete and inaccurate (29.113 to 29.118).

Department of Transport

Airports

30.1 Years of planning for new urban runways. After years of planning runway expansion at Pearson and Vancouver Airports, the dilemma of how to meet the demands of ever-increasing air traffic, while ensuring the protection of the environment, remains unresolved (paragraph 30.11).

30.2 Grappling with deregulation for the past five years. The Department of Transport has been grappling with the demands of deregulation, at hub airports under conditions of government fiscal restraint. In our opinion, other long-standing issues have also limited the Department's ability to respond. The Department has lacked a national policy framework for the airports network, and criteria for rationalizing its financial involvement in airports. Today, it has no plan for funding a $1.4 billion shortfall for capital requirements over the next five years. Federal Dependent Airports continue to be dependent on government appropriations, and on the allocation of a ticket tax, for 88 percent of their costs for 1988/89 (30.12 to 30.36).

30.3 Unprepared for today's deregulated commercial environment. We found an organization required to operate in a competitive commercial environment, managing in accordance with bureaucratic rules. After years of effort the Department still lacks a pricing policy compatible with its current cost-recovery objectives, as well as sufficient timely cost information.

30.4 Costs recovered for passenger processing in 1987/88 were estimated to be $61 million less than full costs. We estimated up to $11 million in foregone revenues each year in parking. General Terminal Fees are charged at only 14 Federal Dependent Airports, with a potential foregone revenue of up to $6 million each year (30.37 to 30.67).

30.5 Concerns about the future. In our opinion, the financial management of the Airports Revolving Fund continues to be weak. We have concerns about whether the Department has the financial experience needed to handle tomorrow's financing arrangements and transfers of airports.

30.6 The Department is now developing a decision-making model for assessing its use of private sector financing options. We believe the Department needs to conduct a post-project review of Terminal 3 before proceeding with similar transactions in the future. This review should focus on the methodology used to calculate the projected benefits to the Crown of choosing the private developer option, and it needs to assess the adequacy of safeguards to protect the interests of the Crown in revenue-sharing arrangements (30.68 to 30.89).

Organization and Programs of the Office of the Auditor General

31.1 This chapter describes the organization and activities of the Office, particularly some of the work the Office conducts that is not readily apparent (paragraph 31.11).

31.2 During 1989/90 the Office was appointed auditor of major new Crown corporations (31.13).

31.3 Due to financial and other constraints, the audit cycle of value-for-money audits in departments and agencies is slipping (31.24).

31.4 Consistent with a renewed emphasis on investment in people, the Office has placed a high priority on training and development (31.40).

31.5 The technological sophistication of audited organizations will have increasing impact on the Office (31.45).

31.6 The Office's work in the international arena is showing results (31.53).

31.7 A symposium on communication, hosted by the Office, underlined the challenge for better communication with legislators (31.62).

Rapport du
# vérificateur général du Canada
à la Chambre des communes

Points saillants 1990

© Ministre des Approvisionnements et Services Canada 1990

Cat No. FA1-1990/2

ISBN 0-662-57822-8

Avant-propos

La production de cette brochure qui renferme les points saillants tirés du Rapport annuel en est à sa troisième année. Il faudrait la percevoir comme un élément qui se rattache à une tâche permanente : celle de communiquer avec clarté les résultats de nos vérifications.

Nos travaux de vérification ne valent que dans la mesure où nous pouvons transmettre les messages que nous véhiculons. Aux députés. Au gouvernement. Aux contribuables du Canada qui versent les dollars que dépense le gouvernement.

Le Rapport annuel du vérificateur général compte plus de 700 pages d'information en détails. Nous avons beau nous efforcer de le rendre accessible, il reste qu'il ne l'est pas facilement.

Cette brochure a deux objectifs : elle donne d'abord les points saillants de chacun des chapitres de cette année; ensuite, les renvois qui suivent chacun des points saillants permettent au lecteur de se retrouver rapidement dans le Rapport.

Les points saillants qui suivent sont très abrégés. Lorsque les lecteurs relèvent des questions qui ont un certain intérêt pour eux, je leur demande instamment de consulter le Rapport pour prendre connaissance du message détaillé.

La brochure a été bien accueillie dans le passé. J'ose espérer qu'elle continuera de s'avérer un outil utile et pratique.

Le vérificateur général du Canada

Kenneth M. Dye, F.C.A.

Table des matières

Chapitre **Page**

1. Questions d'une importance et d'un intérêt particuliers 1
2. Observations du vérificateur général sur les états financiers du gouvernement du Canada 2

Autres observations de vérification

3. Notes de vérification 3
4. Suivi des recommandations formulées dans des rapports antérieurs 4
5. La classification des emplois : un suivi 5

Études spéciales

6. Le régime de vérification s'appliquant aux sociétés d'État 6
7. Valeurs, service et rendement 7
8. L'efficience dans l'administration fédérale : une étude spéciale 8

Vérifications de portée générale et vérifications spéciales

9. Vérification de la sécurité de l'information 10
10. Le ministère du Revenu national, Impôt et le ministère des Finances
    - Les organismes de charité, les organisations sans but lucratif et la *Loi de l'impôt sur le revenu* 12
11. Les projets d'immobilisations 14

Vérifications intégrées

12. Immigration - La gestion du Programme d'immigration 15
13. Immigration - L'exécution du Programme d'immigration à l'étranger 17
14. Immigration - Les réfugiés 18
15. Immigration - Le contrôle et l'exécution de la *Loi sur l'immigration* 20
16. Le ministère des Consommateurs et des Sociétés 22

Table des matières (suite)

Chapitre **Page**

Vérifications intégrées (suite)

17. Le ministère de l'Énergie, des Mines et des Ressources
   - Secteur des levés, de la cartographie et de la télédétection 23

18. Le ministère de l'Environnement 24

19. Le ministère des Affaires indiennes et du Nord canadien
   - Le Programme des affaires du Nord 26

20. Le ministère de la Défense nationale - Gestion des ressources humaines
   - Planification et gestion du personnel 27

21. Le ministère de la Défense nationale - Gestion des ressources humaines
   - Conditions de service militaire 28

22. Le ministère de la Défense nationale - Gestion des ressources humaines
   - Instruction et formation 29

23. Le ministère de la Défense nationale - Gestion des ressources humaines
   - Soutien médical 30

24. Le ministère du Revenu national, Impôt
   - Exécution de la *Loi de l'impôt sur le revenu* 31

25. Le Bureau du surintendant des institutions financières 32

26. La Gendarmerie royale du Canada
   - Application des lois fédérales 33

27. La Gendarmerie royale du Canada
   - Services de soutien aux organismes canadiens chargés de l'application de la loi 34

28. Le Secrétariat d'État - Citoyenneté 36

29. Le Secrétariat d'État - Aide à l'enseignement 37

30. Le ministère des Transports - Les aéroports 38

* * * * *

31. L'organisation et les programmes du Bureau du vérificateur général 40

Questions d'une importance et d'un intérêt particuliers

1.1 Dans ce chapitre, j'attire l'attention sur des questions que j'estime d'une importance particulière. En cette dernière année de mon mandat, je porte un regard rétrospectif sur les changements apportés à la gestion dans l'administration fédérale, au cours des années quatre-vingts, et je signale les défis que nous réserve l'avenir (paragraphes 1.8 à 1.12, 1.32 à 1.43).

1.2 Il y a eu d'importantes améliorations pendant la durée de mon mandat, notamment dans le domaine des sociétés d'État, du contrôle financier et de l'information destinée au Parlement. Néanmoins, un manque du sens de l'urgence que j'avais relevé en 1981 persiste toujours dans un trop grand nombre de cas. La lenteur à combler les lacunes relevées - quand ce n'est pas de l'inaction - engendre l'inefficience et peut miner le moral des employés. Je cite des exemples de promptitude, en espérant que plus de ministères et d'organismes du gouvernement réagiront en temps voulu. La sécurité informatique, entre autres questions, exige des mesures urgentes (1.74 à 1.111).

1.3 Nos vérifications sectorielles ont mis en évidence des aspects particulièrement préoccupants de l'application des règles et de la sécurité publique ainsi que la nécessité d'une meilleure coordination interministérielle (1.56 à 1.73).

1.4 La clef de l'amélioration des activités du gouvernement réside dans ses ressources humaines. Avec de nombreux exemples à l'appui dans le Rapport de cette année, je reprends mon message de l'année dernière qu'une réforme fondamentale, législative et administrative, de la façon dont nous gérons les ressources humaines est nécessaire. Le gouvernement fait actuellement de grands pas dans cette direction (1.112 à 1.128).

1.5 Au cours de la décennie écoulée, la vérification intégrée a évolué d'une façon qui, à mon avis, sert mieux le Parlement. Je souligne deux questions dont il faut s'occuper. D'une part, la présentation des rapports de vérification dès qu'ils sont terminés plutôt qu'une fois par année, améliorerait encore plus notre service au Parlement. D'autre part, la question de mon accès à l'information sur les frais de déplacement des ministres n'a toujours pas été réglée (1.168 à 1.176).

1.6 Je conclus par des réflexions personnelles sur mon expérience en qualité de vérificateur général et sur l'importance de la fonction publique (1.177 à 1.191).

Observations du vérificateur général sur les états financiers du gouvernement du Canada

2.1 La section 2 du volume I des Comptes publics présente les états financiers vérifiés du gouvernement du Canada. Ces états, en ce qui a trait au gouvernement, présentent en résumé :

- la situation financière : les soldes de trésorerie et les investissements du gouvernement, ainsi que les sommes qu'il doit rembourser ou qui doivent lui être remboursées en fin d'exercice;

- les résultats des opérations : ce qu'ont été les recettes et les dépenses du gouvernement au cours de l'exercice;

- l'évolution de la situation financière : les fonds requis par le gouvernement pour assurer le déroulement de ses opérations et ses investissements, et la manière dont il a financé ces activités;

- les besoins financiers : la mesure dans laquelle les sorties de fonds dépassaient les entrées de fonds et le montant net des nouveaux emprunts rendus ainsi nécessaires.

2.2 Depuis la promulgation de la *Loi sur le vérificateur général*, l'année 1990 est la première où le vérificateur général formule une opinion sans réserve sur les états financiers du gouvernement. Les opinions qu'il avait formulées au cours des exercices précédents comportaient d'importantes réserves en raison de l'utilisation de conventions comptables inappropriées qui ont eu comme résultat des états financiers qui induisaient en erreur.

2.3 Cette année, le ministre des Finances et le président du Conseil du Trésor ont amélioré les conventions comptables du gouvernement. Ces efforts ont eu de bons résultats. Je suis heureux, en effet, de déclarer que les états financiers de 1990 présentent fidèlement l'information financière, conformément à ces conventions - ces documents fournissent aux députés et à leurs autres lecteurs une information fiable.

2.4 Au cours de la décennie écoulée, l'évolution de la comptabilité et de la présentation de l'information financière gouvernementale a été rapide. J'admets que les gouvernements doivent mettre du temps pour s'ajuster. Néanmoins, à mon avis, il reste deux points à régler au cours des années qui viennent.

2.5 Premier point - Le gouvernement devrait continuer à étudier et à mettre en oeuvre, le cas échéant, les recommandations du Comité sur la comptabilité et la vérification des organismes du secteur public mis sur pied par l'Institut canadien des comptables agréés.

2.6 Deuxième point - Le gouvernement devrait présenter ses états financiers dans un rapport financier annuel complet, mais concis.

Notes de vérification

3.1 La *Loi sur le vérificateur général* exige du vérificateur général qu'il inclue dans son Rapport annuel les questions d'importance qui, à son avis, devraient être portées à l'attention de la Chambre des communes.

3.2 Le chapitre consacré aux Notes de vérification joue un rôle particulier dans le Rapport annuel. D'autres chapitres décrivent habituellement les constatations faites lors des vérifications intégrées que nous avons effectuées dans des ministères en particulier ou bien ils donnent un compte rendu des vérifications et des études qui portent sur des questions relatives aux activités du gouvernement dans son ensemble. Le chapitre des Notes de vérification est une compilation des faits distincts dont nous avons pris connaissance au cours des vérifications courantes des Comptes publics du Canada, des sociétés d'État et d'autres entités. Il sert également à présenter des questions précises que nous avons relevées lors de nos vérifications intégrées.

3.3 Le chapitre renferme des notes très variées. Trois d'entre elles portent sur des sociétés d'État et les autres, sur des activités de ministères. Les trois notes sur les sociétés d'État se rapportent à des provisions pour d'importantes pertes financières possibles. Deux notes en rapport avec des activités de ministères mentionnent des avantages fiscaux coûteux que peut procurer, sans qu'on le veuille, le régime fiscal canadien. Quant aux autres qui traitent des activités de ministères, elles concernent en général des dépenses des deniers publics, sans souci de l'économie ou sans autorisation appropriée.

3.4 Les notes portent sur des questions importantes; toutefois, elles ne devraient pas servir à tirer des conclusions sur des points que nous n'avons pas examinés.

Suivi des recommandations formulées dans des rapports antérieurs

4.1 Le chapitre sur les suivis effectués fait état des mesures prises par les ministères et les organismes à la suite de nos observations et recommandations. Dans certains cas, les progrès sont considérables, dans d'autres, ils sont modestes.

4.2 **Information destinée au Parlement** - Pour les parties III du Budget des dépenses de 1990-1991, le Bureau du contrôleur général a émis des suggestions et des lignes directrices visant bon nombre des domaines mentionnés dans nos chapitres de 1988. Dans certains cas, notre suivi auprès des ministères et des organismes a relevé des améliorations, alors que dans d'autres, nous avons relevé des carences (paragraphes 4.17 à 4.20)

4.3 **Le ministère de l'Agriculture - Direction générale de la production et de l'inspection des aliments** - Notre examen indique que la direction a pris des mesures substantielles dans tous les domaines où il y avait eu recommandation. Cependant, le ministère doit continuer de canaliser les ressources et d'apporter le soutien nécessaire de sorte que toutes les recommandations soient mises en oeuvre (4.40 à 4.49).

4.4 **Le ministère de l'Agriculture - Information destinée au Parlement** - Nous avons examiné les systèmes et pratiques sur lesquels le ministère de l'Agriculture se fonde de façon à avoir un degré de certitude raisonnable que l'information de la Partie III est exacte, claire, cohérente et complète. Nous concluons que ces systèmes et pratiques tels que le ministère y a recours présentement comportent des lacunes qui nous préoccupent autant que le ministère (4.50 à 4.83).

4.5 **L'Agence canadienne de développement international (ACDI)** - Dans l'ensemble, la mise en application de nos recommandations se fait lente. Nous trouvons toujours préoccupantes les carences qui persistent dans les pratiques de passation de marchés (4.84 à 4.103).

La classification des emplois : un suivi

5.1 La classification des emplois est un processus qui permet de déterminer la valeur relative des emplois. La structure et la gestion efficaces du système de classification revêtent une importance particulière en raison de l'incidence de ce système sur la gestion des ressources humaines de la fonction publique et de ses rapports avec les coûts en traitements. En 1988-1989, les coûts en salaires réguliers, dans la fonction publique, ont dépassé les sept milliards de dollars (paragraphes 5.5 à 5.8).

5.2 En 1984, le Bureau a vérifié la gestion de la classification des emplois. Nous avions signalé un taux de classifications erronées de près de 24 p. 100 pour l'ensemble de la fonction publique, qui avaient engendré un coût annuel net non justifié de 125 millions de dollars. Nous avions formulé des recommandations destinées à apporter des améliorations à la gestion et au contrôle de la classification des emplois (5.12 à 5.14).

5.3 Dans ce suivi de 1990, nous avons examiné les progrès réalisés depuis 1984 et nous avons constaté ce qui suit :

- on nous signale que les capacités du Secrétariat du Conseil du Trésor et des ministères en matière de surveillance et de contrôle se sont nettement améliorées;
- un grand nombre de normes de classification ont été révisées, mais la mise à jour de certaines normes accuse de sérieux retards;
- on a réalisé peu de progrès dans la mise en application d'un système de postes-repères - système de «postes-clés» - pour les ministères;
- le Secrétariat du Conseil du Trésor a relevé une réduction du taux de classifications erronées à 6,4 p. 100 en 1988-1989, ce qui a engendré un coût annuel net non justifié d'environ cinq millions de dollars. Des lacunes dans le déroulement de la vérification pourraient avoir influé sur les résultats. Il faut accroître la rigueur des vérifications (5.23 à 5.49).

5.4 On étudie maintenant une réforme de la gestion du personnel, y compris de la classification des emplois, dans le cadre de l'initiative Fonction publique 2000 du gouvernement. Le besoin de simplifier le système de classification des emplois est évident (5.16 à 5.18 et 5.50 à 5.64).

Le régime de vérification s'appliquant aux sociétés d'État

6.1 La *Loi sur la gestion des finances publiques* (LGFP) confie aux sociétés d'État la responsabilité première de tenir leurs propres livres et registres comptables et d'appliquer des systèmes et des pratiques appropriées. Ces sociétés doivent, chaque année, rendre compte des résultats de leurs activités, de leur situation financière et de la mesure dans laquelle elles ont atteint leurs objectifs pour l'année. Le régime de vérification, qui se compose surtout des vérifications internes, des vérifications annuelles et des examens spéciaux, joue un rôle important et constructif puisqu'il permet de fournir aux sociétés d'État, au gouvernement et au Parlement toute l'information requise pour la reddition de comptes (paragraphes 6.10 à 6.12).

6.2 Des examens spéciaux, élément nouveau de ce régime, ont été effectués auprès de 46 sociétés d'État. Notre Bureau en a effectué 29. Dans la majorité des cas, plusieurs lacunes d'importance ont été signalées au conseil d'administration. Le grand nombre de lacunes importantes relevées au cours de ce premier cycle quinquennal d'examens spéciaux n'est pas nécessairement signe de problèmes généralisés. Il faut plutôt y voir une indication du temps qu'il a fallu aux sociétés pour arriver à se conformer aux nouvelles exigences. D'ailleurs, en règle générale, la version finale des rapports d'examen n'était pas encore terminée que la direction des entités examinées était déjà à planifier les mesures correctives à prendre ou avait même commencé à apporter des correctifs (6.13 à 6.35).

6.3 Une question générale toutefois nous préoccupe. Bon nombre des lacunes relevées étaient attribuables à l'absence d'objectifs clairement précisés et au fait qu'il n'existait pas de mesures du rendement et de rapports à ce sujet. De nombreuses sociétés d'État doivent réellement améliorer l'information qu'elles présentent sur les résultats qu'elles atteignent par rapport aux objectifs fixés, ce qui les aiderait à s'acquitter pleinement de leur obligation de rendre compte au Parlement (6.36 à 6.45 et 6.93 à 6.98).

6.4 Dans la majorité des cas, lorsqu'il y avait eu vérification interne, les examinateurs en ont utilisé les résultats. Toutefois, dans certains cas, cela a été impossible, soit parce que la nature de la vérification interne ne le permettait pas, soit parce qu'aucune vérification interne n'avait été faite malgré l'obligation qui existe en ce sens. Le Bureau appuie nettement cette obligation d'effectuer des vérifications internes et croit que les sociétés capables de prouver que les avantages de ce contrôle n'en justifient pas les coûts devraient demander d'être exemptées des dispositions de la LGFP (6.54 à 6.60).

6.5 Au cours des cinq dernières années, la plupart des rapports de vérification portant sur les états financiers des sociétés d'État présentaient des opinions sans réserve ou ne signalaient pas «d'autres questions». La situation est bien meilleure que celle qui existait avant la modification de la *Loi sur l'administration financière* (6.78 à 6.92).

6.6 Compte tenu de l'expérience vécue au cours du premier cycle quinquennal des examens spéciaux et l'examen des résultats des vérifications annuelles, le Bureau est nettement en faveur de ce régime de vérification nouveau et plus exigeant (6.107 et 6.108).

Valeurs, service et rendement

7.1 Cette étude porte sur les valeurs de la fonction publique. Quatre ministères y ont participé. Nous avons rencontré en entrevue 200 personnes d'un peu partout au pays, notamment des gestionnaires, des membres du personnel, des cadres supérieurs et des politiciens. Nous avons cherché à comprendre quels facteurs contribuent à la qualité du rendement des employés au travail, quels dilemmes de valeurs les empêchent de donner un bon rendement et comment ces dilemmes peuvent être résolus (paragraphes 7.6 et 7.19).

7.2 Les systèmes et les structures seuls ne suffisent pas à améliorer le rendement dans la fonction publique; celui-ci dépend aussi des employés et des valeurs auxquelles ils adhèrent. Ces valeurs déterminent les tâches que les employés soigneront, celles qu'ils feront superficiellement et celles encore qu'ils tenteront d'éviter. Le rôle des valeurs n'a guère reçu toute l'attention qu'il mérite. Les gestionnaires ont tendance à s'attacher davantage aux systèmes et aux structures (7.13).

7.3 Nous avons dégagé trois aspirations qu'ont exprimées le plus souvent les employés de tous les niveaux et des divers endroits. Les employés sont soucieux d'apporter leur contribution; ils souhaitent faire une différence, exercer une influence, et maitriser une tâche ou une activité. Les employés apprécient de voir leur contribution reconnue et récompensée; ils cherchent le respect et la reconnaissance. Les employés apprécient d'appartenir à un groupe, particulièrement s'ils estiment que le groupe réussit bien (7.37).

7.4 Il y a dilemme lorsqu'une organisation privilégie exclusivement le contrôle et l'observation des directives alors que les employés, eux, privilégient l'engagement et le dévouement. Les dilemmes que posent les aspects tangibles et intangibles de la gestion empêchent les employés d'obtenir des résultats (7.7 et 7.42).

7.5 Nous avons examiné des services qui ont résolu de tels problèmes. La gestion s'y fait par la compréhension et trouve un équilibre entre les éléments tangibles et intangibles. Ils constituent des îlots d'innovation. Aucun d'entre eux n'a réussi à implanter rapidement cette culture organisationnelle équilibrée. Il leur a fallu de cinq à dix ans d'efforts soutenus, et parfois deux ou trois générations de dirigeants. La continuité dans le leadership semble être un élément primordial de la survie de ces îlots d'innovation (7.78 et 7.88).

L'efficience dans l'administration fédérale : une étude spéciale

8.1 L'efficience est un élément essentiel de la gestion, qui permet de garantir le bon rapport avantages-coût des opérations du gouvernement (paragraphes 8.13 à 8.19).

8.2 La responsabilité de la gestion pratiquée avec un souci suffisant d'efficience incombe autant aux organismes centraux qu'aux ministères. Les organismes centraux sont chargés d'établir le cadre des opérations du gouvernement, d'affecter les ressources, de donner une orientation fonctionnelle et d'évaluer les possibilités qui s'offrent dans l'administration fédérale de fournir un meilleur service. Les ministères sont chargés d'exécuter des programmes ou de fournir des services avec efficience (8.24 à 8.27).

8.3 Les problèmes liés à la gestion soucieuse d'efficience mentionnés dans ce chapitre ne sont pas nouveaux. Des variations sur le même thème ont été déjà signalées à l'issue d'études d'envergure gouvernementale et de vérifications de l'optimisation des ressources effectuées dans les ministères. Ce qui est nouveau c'est que, en raison des restrictions financières du gouvernement, l'efficience est devenue soudainement un moyen d'assurer la prestation de services au coût le moins élevé et de la meilleure qualité possible, et ce, conformément aux obligations législatives du gouvernement (8.11 et 8.12).

8.4 Le gouvernement a récemment pris un certain nombre d'initiatives pour rendre ses opérations plus efficientes, par exemple le régime d'Accroissement des pouvoirs et des responsabilités ministériels et Fonction publique 2000, mais il est encore trop tôt pour en examiner les résultats (8.26 et 8.27).

8.5 Notre étude révèle que les ministères utilisent une foule de moyens en vue d'accroître l'efficience. On peut citer, entre autres, l'adoption d'une nouvelle philosophie de gestion, l'analyse des opérations et la mise en oeuvre de nouvelles technologies. Toutefois, les organismes centraux et les ministères doivent s'attaquer ensemble aux nombreuses lacunes qui ressortent dans la manière dont les ministères gèrent leurs opérations en tenant compte de l'efficience (8.60 à 8.69, 8.82 à 8.98).

8.6 La plupart des progrès réalisés jusqu'ici dans les ministères sont ponctuels et ne sont pas le fruit d'un plan de gestion. De plus, la diffusion de l'information à ce sujet laisse à désirer (8.79 à 8.98, 8.47 à 8.56).

8.7 Les documents de reddition de comptes des ministères, utilisés pour l'affectation des ressources dans l'administration fédérale, contiennent peu d'information sur l'efficience. Fondée en grande partie sur le processus budgétaire, la planification est faite sans information suffisante sur la gestion dans une optique d'efficience (8.32 à 8.46).

8.8 Il faudrait améliorer les systèmes de récompenses pour encourager les employés à avoir un meilleur rendement. On risque de perdre des occasions de réaliser des progrès considérables sur le plan de l'efficience si la fonction publique ne réussit pas à inculquer aux gestionnaires une philosophie de gestion et des attitudes les poussant à encourager leurs employés à exceller dans leur travail (8.70 à 8.78, 8.57 à 8.59).

8.9 En général, on a du mal à obtenir de l'information sur les coûts et le rendement ou on ne l'utilise pas assez. L'enregistrement et la communication des dépenses engagées pour les services d'administration et de soutien laissent à désirer, ce qui complique l'évaluation de l'incidence des récentes coupures budgétaires sur les frais généraux et sur l'efficience (8.99 à 8.107).

8.10 Toute évaluation en bonne et due forme du souci d'efficience doit être fondée sur de l'information relative aux coûts et au rendement. À part quelques exceptions, peu de progrès ont été constatés dans la qualité de l'information sur l'efficience, qui laissait déjà à désirer au moment de notre Rapport de 1987 (8.108).

Vérification de la sécurité de l'information

9.1 Au cours des cinq dernières années, la croissance soudaine de l'utilisation des ordinateurs a multiplié les possibilités de fraude, de dommages et d'abus et a rendu la fonction publique vulnérable au vol des données qu'elle garde en ordinateur. Aux termes de la nouvelle Politique de 1986 concernant la sécurité du gouvernement, qui représentait un grand pas en avant, l'administration fédérale doit protéger suffisamment toute l'information confidentielle et de nature délicate qu'elle détient. Notre vérification a été axée sur la sécurité des données de nature délicate gardées en ordinateur, sauf l'information confidentielle, pour des raisons de sécurité nationale. Nous avons englobé à la fois les organismes centraux et d'encadrement et un échantillon de 13 ministères (paragraphes 9.6 à 9.28).

9.2 Les menaces qui planent sur les systèmes d'information du gouvernement sont bien réelles. Au cours d'une récente période de quatre mois, il s'est produit 21 incidents où des virus ont infesté plusieurs centaines de micro-ordinateurs du gouvernement. Durant la même période, il s'est produit une infraction à la sécurité, qui a entraîné l'infestation de 28 micro-ordinateurs sur la colline du Parlement. Nous avons également remarqué qu'il y avait eu surtout des intrusions illégales dans les systèmes informatiques et des incidents provoqués par des employés mécontents, qui ont causé des dommages à des ordinateurs (9.14 et 9.15).

9.3 À notre avis, les ministères et organismes ont été négligents en n'élaborant pas de plans de secours précis et complets. La GRC avise le Secrétariat du Conseil du Trésor, depuis plus de dix ans, du manque de concertation entre les ministères pour se préoccuper de l'élaboration de plans de secours. Presque tous les ministères qui faisaient partie de notre échantillon avaient aussi omis d'évaluer les menaces et les risques qui pesaient sur leurs systèmes informatiques. N'en connaissant pas la vulnérabilité, les ministères pourraient ne pas prendre les mesures nécessaires pour les protéger. Les points faibles du gouvernement se situent dans des secteurs tels que la protection de l'information, la perception des recettes et le maintien des services qu'elle dispense à la population. Il n'est pas certain qu'elle pourrait continuer de fournir tous les services essentiels advenant une panne ou un sinistre de grande envergure (9.53 à 9.67).

9.4 Jusqu'en mars 1990, lorsque le Secrétariat du Conseil du Trésor a offert de prendre les choses en mains, il n'y avait aucun centre de coordination et d'orientation continues en matière de sécurité de l'information. Il existe toujours des chevauchements, des lacunes et des fragmentations dans les activités visant la sécurité de l'information que mènent les organismes d'encadrement dans ce domaine. Pas un seul organisme en particulier n'a été chargé de l'évaluation des menaces et des risques, de l'élaboration de plans de secours ou de la formation dans ce domaine. La surveillance à l'échelle du gouvernement laisse à désirer et les rapports sur la sécurité dans les ministères sont insuffisants (9.32 à 9.52, 9.68 à 9.69).

9.5 Parmi les questions soulevées dans le présent chapitre, très peu sont nouvelles ou inconnues des ministères. Nous sommes d'avis qu'il devrait y avoir un effort concerté, au sein de l'administration fédérale, pour se préoccuper de la question de la sécurité de l'information. Il est nécessaire que l'on apporte des améliorations à l'orientation centrale et à la coordination. Les sous-ministres devraient porter plus d'attention à la sécurité; ils devraient avoir à répondre des mesures correctives pour combler les lacunes qui ont été relevées au cours de cette vérification (9.30 et 9.31, 9.70 à 9.77).

Le ministère du Revenu national, Impôt et le ministère des Finances

Les organismes de charité, les organisations sans but lucratif et la *Loi de l'impôt sur le revenu*

Organismes de charité enregistrés

10.1 Un vaste réseau de bénévoles dévoués contribuent au soutien de l'infrastructure sociale au Canada. Sans leur aide, de nombreux services incomberaient au gouvernement fédéral ainsi qu'aux administrations municipales et provinciales (paragraphes 10.12 et 10.13).

10.2 Le principal encouragement du gouvernement fédéral aux oeuvres de bienfaisance est offert par la *Loi de l'impôt sur le revenu*. L'enregistrement d'un organisme de charité en vertu de la loi confère en effet deux avantages considérables, soit une exemption d'impôt et la possibilité de délivrer des reçus au titre des dons de charité. Or, ces avantages entraînent chaque année une perte de revenus de 820 millions de dollars pour le Trésor fédéral (10.14 à 10.16).

10.3 Plus de 31 p. 100 des 63 000 organismes de charité enregistrés ne produisent pas leur déclaration d'impôt à temps. Même si le ministère du Revenu national, Impôt a été informé par son service du contentieux qu'il n'a pas le droit de renoncer à la pénalité pour production tardive prévue au paragraphe 162(7) de la *Loi de l'impôt sur le revenu*, il ne l'a jamais imposée. S'il l'avait fait, il aurait ainsi recueilli jusqu'à 49 millions de dollars par année. Le ministère a cependant annulé l'enregistrement de certains organismes de charité qui n'avaient pas produit leur déclaration; en 1989-1990, 633 enregistrements ont ainsi été révoqués. Le ministère nous a informés qu'en plus des récentes améliorations qu'il a apportées au plan administratif, la question des amendes est un des grands thèmes à l'étude dans le cadre de son examen actuel des organismes de charité (10.39, 10.55 à 10.59).

10.4 Pour toutes les infractions à la loi sauf la fraude, le seul recours du ministère est la possibilité d'annuler l'enregistrement. Or, comme les organismes de charité sont souvent dirigés par des bénévoles, l'inobservation peut parfois venir d'un oubli. Ainsi, le ministère use de discrétion dans l'application de cette sanction et il essaie de résoudre les problèmes ou d'obtenir du contrevenant une promesse de respecter la loi à l'avenir (10.39, 10.74 à 10.82).

10.5 Chaque année, plus de 63 000 organismes de charité émettent des reçus pour déduction ou crédit d'impôt; plus de 4,9 millions de contribuables réclament des crédits d'impôt. Le ministère du Revenu national, Impôt examine maintenant les reçus pour dons de charité, mais il n'a pas créé de programme d'observation satisfaisant pour déterminer leur bien-fondé (10.86).

Organismes de charité enregistrés (suite)

10.6 Les dispositions de la loi régissant les activités commerciales des organismes de charité ne sont pas claires, et les organismes n'ont aucun mal à les contourner (10.89 à 10.95).

10.7 Le public n'a pas toujours accès à des renseignements fiables par le biais de la déclaration publique de renseignements (10.107 à 10.114).

10.8 Dans le but d'obtenir les renseignements requis pour augmenter le niveau d'observation volontaire de la loi et pour améliorer les textes de loi, le ministère du Revenu national, Impôt devrait élargir ses pratiques afin d'y inclure un programme qui mesure l'observation de la loi par les organismes de charité enregistrés (10.116 à 10.119).

Organisations sans but lucratif

10.9 En 1986, le Canada comptait environ 60 000 organisations sans but lucratif dûment incorporées; on ne connaît pas leur nombre aujourd'hui. Il n'existe pas d'exigences législatives précises demandant l'enregistrement; chaque organisation détermine donc elle-même si elle est admissible en tant qu'organisation sans but lucratif en vertu de la Loi de l'impôt sur le revenu. Contrairement aux organismes de charité enregistrés, les organisations sans but lucratif ne sont pas tenues de produire une déclaration annuelle, sauf si elles sont incorporées ou si elles sont constituées en fiducie. Par conséquent, le ministère du Revenu national, Impôt n'exerce aucun contrôle sur leur droit de bénéficier d'une exemption d'impôt (10.125).

10.10 Les actionnaires d'une corporation sans but lucratif peuvent bénéficier personnellement du statut exonéré de la corporation. Certaines entités municipales, provinciales ou fédérales peuvent même se prévaloir de leur statut d'organisation sans but lucratif pour transférer des avantages fiscaux à des entreprises privées (10.129 à 10.134).

Initiatives ministérielles

10.11 Le ministère du Revenu national, Impôt et le ministère des Finances effectuent présentement des examens approfondis du cadre législatif et administratif régissant les organismes de charité enregistrés et les organisations sans but lucratif. Ils nous ont informés que les questions soulevées dans notre rapport seront étudiées dans le cadre de ces examens (10.29).

Les projets d'immobilisations

11.1 Nous avons examiné sept projets d'une valeur allant de 10 à 50 millions de dollars. Nous avons constaté, dans nombre de cas, que la planification prenait beaucoup de temps, entraînant une hausse proportionnelle des coûts des projets (paragraphes 11.12, 11.23, 11.31 et 11.44).

11.2 Bien que le projet ait été achevé dans les délais prescrits et en deçà du budget, nous avons constaté que les locataires de l'immeuble situé au Un, rue Front, à Toronto, avaient outrepassé les niveaux approuvés par le Conseil du Trésor pour l'aménagement intérieur, à un coût supplémentaire de 3,4 millions de dollars. Les changements de groupes de locataires et les modifications qui s'y rattachent, attribuables aux exigences des utilisateurs, ont contribué à la hausse des coûts (11.14 à 11.20).

11.3 Saskatoon a été choisie comme emplacement du nouveau Centre national de recherche en hydrologie, parce qu'il y avait possibilité d'utiliser les installations déjà en place à l'Université. Toutefois, certaines des installations analogues se retrouvaient au Centre, au coût de 300 000 $. Un laboratoire spécial ainsi que de l'espace à bureaux qui s'y rattachent ont été conçus pour une société d'État, à un coût évalué à 850 000 $. La société en question n'envisage pas de l'occuper (11.26). Le ministère de l'Environnement s'est appliqué à rechercher des locataires convenables afin d'accroître l'utilisation des locaux disponibles au Centre (11.27).

11.4 Les coûts de quatre centres de foresterie situés à Victoria, à Sault-Sainte-Marie, à Sainte-Foy et à Fredericton avaient été initialement évalués à 4,2 millions, 1,8 million, 5,8 millions et 18,5 millions de dollars, respectivement. Les coûts réels se sont élevés à 12,2 millions de dollars à Victoria, à 16,8 millions de dollars à Sault-Sainte-Marie, à 19,7 millions de dollars à Sainte-Foy et à 30 millions de dollars à Fredericton, augmentations qui représentent jusqu'à neuf fois les estimations initiales. Bien que l'inflation puisse expliquer une certaine partie de l'escalade, la majeure partie est attribuable à des changements des besoins, à des exigences plus grandes ou à des premières estimations inexactes (11.12, 11.31, 11.37, 11.43 et 11.48).

Immigration

La gestion du Programme d'immigration

12.1 Le Canada est l'un des principaux pays où l'immigration a marqué, et marque toujours, le développement économique, social et culturel. Étant donné l'importance de ce rôle, la complexité du programme, les avantages qui en découlent et les coûts élevés qui y sont liés, il importe d'en assurer la gestion efficace (voir le paragraphe 12.10).

12.2 La portée des opérations du Programme d'immigration est considérable. Plus de 100 millions de personnes viennent au Canada tous les ans, qui toutes doivent être interrogées et identifiées. Environ 500 000 sont des visiteurs qui ont besoin de visas; quelque 200 000 autres sont des immigrants qui doivent passer une entrevue et faire l'objet d'un examen médical et d'une enquête de sécurité. La politique d'immigration du Canada vise à favoriser l'admission des personnes qui ont des raisons légitimes d'être admises au pays, mais à refuser d'admettre celles qui ne satisfont pas aux critères à cet égard (12.13 à 12.19).

12.3 Les pressions migratoires accrues, l'adoption de la *Charte canadienne des droits et libertés*, les interventions de représentants élus, d'organismes non gouvernementaux et de citoyens concernant des cas particuliers, ainsi que les ententes sur l'immigration conclues avec les provinces, constituent des facteurs importants qui influent sur la gestion et l'exécution du Programme d'immigration (12.16 à 12.31).

12.4 Nous reconnaissons les difficultés qu'engendrent ces facteurs, mais la présente vérification sectorielle nous porte à conclure qu'Emploi et Immigration Canada (EIC) n'a pas entièrement exercé les fonctions de coordination et de contrôle qu'exigent son mandat législatif et l'obligation qu'a son ministre de rendre compte du Programme d'immigration. Par ailleurs, les rôles et les diverses responsabilités concernant certains aspects importants du programme n'ont pas toujours été établies de façon précise (12.37 à 12.48).

12.5 Notre examen a révélé qu'au cours des trois dernières années, le nombre d'immigrants admis a considérablement dépassé le niveau annoncé tous les ans dans le Rapport déposé au Parlement. Cette situation influe sur les activités liées à l'établissement des immigrants et soulève des questions sur le respect de l'objet de la Loi et sur la reddition des comptes par la direction (12.49 à 12.59).

12.6 Bien qu'EIC et les autres ministères et organismes aient mis en oeuvre des programmes de formation à l'intention de leur personnel affecté aux activités d'immigration, certains employés n'ont pas la formation voulue et rien ne garantit qu'ils possèdent les connaissances et compétences requises pour s'acquitter de leurs fonctions (12.60 à 12.70).

12.7 Notre examen a également montré que d'importants progrès ont été réalisés à l'égard du recouvrement des coûts. Toutefois, les recettes que génèrent les frais imposés aux utilisateurs représentent seulement une faible partie des coûts liés à la prestation des services d'immigration. Pourtant, il est possible de recouvrer une plus grande partie de ces coûts (12.71 à 12.82).

12.8 L'efficacité de certaines composantes essentielles du Programme d'immigration, comme le volet des travailleurs sélectionnés, la catégorie de la famille, les catégories désignées ainsi que les contrôles de santé et de sécurité, n'a jamais été évaluée (12.83 à 12.88).

12.9 L'information sur l'immigration présentée dans les Parties III des Budgets des dépenses est incomplète et fragmentée. Les données relatives aux coûts et aux résultats ne sont pas suffisantes pour donner aux députés un aperçu global du rendement du Programme d'immigration et de ses besoins en ressources (12.89 à 12.97).

Immigration

L'exécution du Programme d'immigration à l'étranger

13.1 Le ministère des Affaires extérieures (MAE) traite les demandes de visa d'immigrant et de visa de visiteur à l'étranger. Emploi et Immigration Canada (EIC), après consultation avec le MAE, détermine le nombre total d'immigrants à sélectionner à l'étranger. En 1989, le MAE a délivré 187 000 visas d'immigrant et 599 000 visas de visiteur (paragraphes 13.8 à 13.11).

13.2 Bien que le personnel et les agents des visas du MAE s'efforcent d'assurer avec dévouement des services d'immigration aux immigrants et visiteurs éventuels, l'efficience et l'efficacité opérationnelle du système de prestation des services à l'étranger doivent être améliorées sous quatre aspects.

13.3 **Dépassement des cibles.** Les missions à l'étranger traitent un nombre de demandes de visa d'immigrant sensiblement plus élevé que requis pour atteindre la cible prévue. Pour la troisième année consécutive, il y a eu un dépassement marqué du niveau global d'immigration annoncé au Parlement. En conséquence, on remet en question le vaste processus de consultation qui est mis en oeuvre au Canada pour établir ce niveau d'immigration (13.26 à 13.36).

13.4 **Service au requérant.** Le délai requis pour arriver à une décision d'octroyer ou refuser un visa d'immigrant varie sensiblement d'une année à l'autre et d'une mission à l'autre. Cela soulève la question de l'uniformité des services fournis aux requérants (13.37 à 13.48).

13.5 **Normes d'efficience requises pour la répartition des ressources.** Le temps consacré par le personnel de l'immigration au traitement des demandes de visa varie tellement entre missions que le ministère ne peut offrir d'assurance raisonnable sur le bien-fondé du nombre d'agents des visas en mission à l'étranger et de leur lieu d'affectation (13.37 à 13.48).

13.6 **Possibilités d'améliorer l'utilisation des ressources dans les missions.** L'efficience du système d'exécution du programme pourrait être sensiblement améliorée grâce à une automatisation accrue, une paperasserie administrative moins lourde, un plus grand recours à du personnel de programme recruté sur place, un lien plus étroit entre le niveau de risque et la décision de tenir ou non de longues entrevues avec les requérants ainsi que des formalités d'examens médicaux plus efficientes (13.59 à 13.89).

13.7 **Conclusion générale.** Le ministère pourrait maintenir le même niveau cible qu'en 1989 en affectant moins de ressources au traitement des demandes de visa d'immigrant. De même, on pourrait traiter un nombre plus élevé de demandes en affectant le même niveau de ressources au traitement des demandes de visa.

Immigration

Les réfugiés

14.1 À la fin de 1988, le processus de reconnaissance du statut de réfugié accusait un arriéré de près de 85 000 revendications non traitées. De plus, le processus en place ne permettait pas de régler de façon rapide et décisive les revendications manifestement non fondées. Le système se prêtait très facilement aux abus de sorte qu'il a été surchargé par un nombre croissant de revendications, ce qui n'a fait qu'aggraver les retards existants (voir les paragraphes 14.13 et 14.14).

14.2 Les nouvelles dispositions de la *Loi sur l'immigration*, entrées en vigueur le 1er janvier 1989, visaient à rationaliser le traitement des demandes du statut de réfugié, à maintenir une protection aux personnes vraiment menacées dans leur pays d'origine et à dissuader celles qui n'ont pas besoin de la protection du Canada ou dont les assertions ne sont pas fondées (14.15).

14.3 Nous avons constaté que certains mécanismes importants visant à freiner les abus n'ont pas été mis en place ou qu'ils ne fonctionnaient pas comme prévu. Le Canada pourrait donc se retrouver dans une situation semblable à celle de 1988, lorsque le nombre de revendications dépassait nettement la capacité de traitement du système (14.32 à 14.48).

14.4 Après 15 mois de fonctionnement, le nouveau processus nécessite quelques rajustements qui permettront d'en améliorer le fonctionnement et d'accélérer le traitement des revendications. Les problèmes liés aux ajournements et à la mise au rôle des audiences ne permettent pas l'utilisation optimale du temps des arbitres et des commissaires de la Commission de l'immigration et du statut de réfugié (CISR). Emploi et Immigration Canada (EIC) et la Commission de l'immigration et du statut de réfugié ont tous deux pris des mesures correctrices pour améliorer la situation (14.49 à 14.60).

14.5 Nous sommes d'avis que l'on pourrait réaliser des économies importantes en rationalisant l'audience initiale pour les cas non contestés par le ministre de l'Emploi et de l'Immigration (14.61 à 14.66).

14.6 Nous avons constaté que la formation des agents d'Emploi et Immigration chargés de présenter les cas n'était pas suffisante. Il y a également des lacunes au plan de la vérification de la compétence, de la cote de sécurité et des conflits d'intérêts éventuels des interprètes (14.67 à 14.72).

14.7 Le programme d'élimination de l'arriéré avait déjà pris beaucoup de retard au 31 mars 1990 à cause des mêmes difficultés que celles qui affectent le nouveau processus de reconnaissance du statut de réfugié. À moins que les lacunes du système ne soient corrigées et que la productivité n'augmente, le programme d'élimination de l'arriéré sera plus coûteux et se terminera plus tard que prévu (14.76 à 14.82).

14.8 Nous avons également constaté que les contrôles concernant la protection de la santé et de la sécurité des résidents canadiens n'ont pas toujours été mis en oeuvre en temps opportun (14.83 à 14.87).

Immigration

Le contrôle et l'exécution de la *Loi sur l'immigration*

15.1 Le système canadien de contrôle et d'exécution de la *Loi sur l'immigration* est structuré selon trois principaux centres d'intervention : la sélection à l'étranger, les examens aux points d'entrée et le contrôle et l'exécution de la Loi à l'intérieur du pays. Les activités de contrôle et d'exécution de la Loi doivent permettre d'identifier les personnes non admissibles et d'empêcher qu'elles entrent au Canada; elles doivent également permettre de contrôler le séjour de celles qui y sont admises temporairement, de mettre sous garde les personnes qui constituent un risque à la sécurité ou une menace grave sur le plan criminel, et, normalement, de renvoyer du Canada les personnes qui contreviennent à la *Loi sur l'immigration* ou à son Règlement (voir les paragraphes 15.13 et 15.14).

15.2 Le défi que représentent ces objectifs est impressionnant. Le caractère judiciaire du processus, le grand nombre d'appels interjetés à l'égard des jugements rendus sur des cas d'immigration, les pressions qu'exercent de nombreuses organisations et le volume d'activités influent fortement sur la mesure avec laquelle les objectifs de contrôle et d'exécution de la Loi sont atteints (15.17 et 15.18).

15.3 Notre vérification soulève des doutes sur l'efficacité opérationnelle d'activités clés du contrôle et de l'exécution de la Loi (15.25 et 15.26).

15.4 À la ligne d'inspection primaire (LIP), le premier contrôle aux points d'entrée en sol canadien, les avis de signalement qui servent à identifier les personnes non admissibles n'étaient pas utilisés efficacement. Les agents des douanes avaient reçu, en matière d'immigration, une formation limitée et manquant de cohérence. Nous avons constaté que l'absence de système de mesure du rendement de la LIP à l'égard de l'immigration et le peu de rétroaction sur les cas déférés à l'examen secondaire ont affaibli les contrôles de gestion de la ligne d'inspection primaire (15.27 à 15.55).

15.5 Par ailleurs, les résultats des activités d'examen sécuritaire ont besoin d'être évalués. Même lorsque les rapports fournissent les raisons de l'inadmissibilité, peu de dossiers sont rejetés, et rien n'indique que les vérifications relatives aux activités criminelles sont complètes. Nous avons également constaté l'absence de normes en matière d'examen médical pour assurer la conformité à la Loi et prévenir l'entrée de personnes qui représenteraient un danger pour la santé publique ou créeraient une demande excessive sur les services canadiens de santé et de bien-être social (15.56 à 15.82).

15.6 Notre examen a également révélé que les conditions rattachées au droit d'établissement accordé aux entrepreneurs ne sont pas imposées de façon uniforme. En outre, la majorité des entrepreneurs qui ont obtenu le droit à l'établissement sous réserve de conditions ne sont pas tenus de démontrer qu'ils s'y sont conformés. Aucun entrepreneur n'a été renvoyé pour bris de conditions (15.93 à 15.101).

15.7 Notre examen des procédures d'exécution de la *Loi sur l'immigration* a révélé que, en dépit d'améliorations apportées depuis 1989 dans le domaine de l'immigration, il y a encore dans une région un arriéré sérieux d'investigations et que leur efficience doit être améliorée. Il y a de longs délais pour obtenir l'information nécessaire et pertinente auprès du Centre d'information de la police canadienne ou d'autres sources (15.108 à 15.120).

15.8 Pour la majorité des cas mettant en cause des demandeurs du statut de réfugié, les mesures de renvoi sont reportées ou annulées pour diverses raisons, notamment des appels, des reports imputables à la guerre ou à des troubles civils et pour d'autres motifs d'ordre humanitaire. Ainsi, la plupart des demandeurs sont assurés d'un séjour prolongé au Canada. Nous mettons en doute l'économie, l'efficience et l'efficacité opérationnelle d'un processus où la mise en oeuvre des mesures d'exécution est l'exception plutôt que la règle (15.121 à 15.128).

15.9 Nous avons également constaté des «inefficiences» résultant du recours au permis ministériel pour octroyer un statut temporaire aux personnes qui ont enfreint la *Loi sur l'immigration* ou qui ne sont pas admissibles au Canada (15.129 à 15.142).

15.10 Finalement, notre vérification du Système de soutien aux opérations des bureaux locaux (SSOBL), une source essentielle d'information pour les agents d'immigration, révèle que l'accès au système n'est pas fiable et que les données sont incomplètes et parfois trompeuses (15.144 à 15.152).

15.11 EIC a déployé maints efforts pour relever les défis que pose le Programme d'immigration dans plusieurs des domaines mentionnés ci-haut, dont un nouveau projet visant l'examen sécuritaire en immigration ainsi qu'un examen des politiques et procédés touchant la non-admissibilité pour raisons médicales. Cependant, nous croyons que la mise en oeuvre de nos recommandations aiderait grandement EIC à atteindre ses objectifs de contrôle et d'exécution avec un souci d'économie et d'efficience. (15.74 et 15.82).

Le ministère des Consommateurs et des Sociétés

16.1 Le ministère des Consommateurs et des Sociétés est chargé d'appliquer un certain nombre de lois fédérales qui visent à favoriser le fonctionnement équitable et efficace du marché au Canada. Au cours de notre vérification, nous avons examiné la mise en oeuvre de six des principales lois qu'applique le ministère (paragraphes 16.7 et 16.8).

16.2 Nous avons constaté que la *Loi sur la faillite* est désuète. La loi actuelle a été adoptée en 1949 et elle a été modifiée pour la dernière fois en 1966. Il y a eu de nombreuses demandes de révision du texte législatif. La Direction des faillites a pris des mesures administratives pour pallier l'absence d'orientation législative. Nous sommes d'avis qu'il est important que soient envisagées des modifications à la loi (16.14 à 16.23).

16.3 Dans d'autres secteurs, nous avons constaté que les niveaux de service, dans un certain nombre de programmes ministériels clés, ont diminué au cours des dernières années. Par exemple, la délivrance d'un brevet prend maintenant 30 p. 100 plus de temps qu'il y a cinq ans (43 mois comparativement à 33 mois) (16.26 à 16.30). Le pourcentage de plaintes fondées pour publicité trompeuse, qui font l'objet d'une enquête, est passé de 22 à huit p. 100 sur une période de 10 ans (16.72 à 16.76). L'on anticipe qu'il peut s'écouler de deux à neuf ans ou plus entre les inspections périodiques des instruments de pesage et de mesure dans certaines régions du pays (16.93 à 16.95).

16.4 Nous avons constaté qu'il y avait lieu d'améliorer les méthodes de gestion de certaines parties des programmes d'inspection des instruments de pesage et de mesure ainsi que des compteurs d'électricité et de gaz. Les gestionnaires n'avaient pas clarifié entièrement leurs obligations en vertu de la loi (16.88 à 16.92 et 16.109 à 16.112); certaines inspections étaient mal ciblées (16.97 à 16.101) et les inspecteurs de compteurs n'avaient pas d'instructions suffisantes sur la façon d'effectuer certaines inspections (16.113 à 16.116).

16.5 Le Bureau de la politique de concurrence élabore des lignes directrices publiques sur le processus d'examen des fusionnements, aux termes de la *Loi sur la concurrence*. Nous avons constaté que le Bureau se devait d'élaborer des procédés pour déterminer les fusionnements qui feront l'objet d'un examen détaillé. Il se devait aussi de mettre à la disposition du personnel des procédés sur la façon d'effectuer les examens en question (16.57 à 16.68).

16.6 L'information que le ministère fournit au Parlement en regard de son l'obligation de rendre compte devait être améliorée pour la rendre plus exacte en ce qui concerne la présentation de certaines informations et pour faire état des secteurs de programmes où se posent des problèmes (16.139 à 16.142).

Le ministère de l'Énergie, des Mines et des Ressources

Secteur des levés, de la cartographie et de la télédétection

17.1 Nous avons effectué une vérification du Secteur des levés, de la cartographie et de la télédétection du ministère de l'Énergie, des Mines et des Ressources. En général, nous avons constaté qu'il existait des systèmes appropriés de gestion opérationnelle dans l'ensemble du Secteur ou qu'on était en voie de les mettre en place. Certaines indications nous ont montré que le Secteur commençait à coordonner les questions qui concernent plusieurs de ses centres, comme la gestion des projets de recherche et de développement. Le Secteur a aussi adopté un rôle de chef de file en ce qui a trait à la coordination des activités de géomatique entreprises au niveau fédéral et à l'élaboration de programmes conjoints avec les provinces. Depuis la dernière vérification que nous avons effectuée en 1982, le Secteur a entrepris plusieurs modifications importantes -- entre autres, la création d'un Centre canadien de géomatique à Sherbrooke, l'impartition à l'industrie d'un plus grand nombre de tâches et l'intégration de l'organisme chargé des activités de télédétection à ceux qui sont chargés des levés et de la cartographie. Pour s'occuper de ces dossiers, le Secteur a remis à plus tard la planification de certaines questions, en particulier l'élaboration de la raison d'être de la Base nationale de données topographiques (BNDT). Ce dernier organisme tente de régler la question des méthodes à utiliser pour produire ou réviser de façon efficiente les cartes sur support papier, tout en répondant aux besoins qui se font sentir en information cartographique, sous forme numérique. Il s'agit d'un projet à long terme, coûteux, qui touche l'ensemble du Secteur. Bien que ce dernier ait entrepris un certain nombre d'études, nous n'avons pu trouver d'analyses ou de plans appropriés qui servent à orienter la mise en oeuvre de la BNDT et à justifier sa contribution à l'objectif du Secteur énoncé dans la Partie III du Budget des dépenses (paragraphe 17.7).

17.2 Depuis 1980, le Secteur a affecté environ 33 millions de dollars à la BNDT, et il prévoit dépenser une somme supplémentaire de 95 millions, d'ici l'an 2000 (17.22).

17.3 Bien que le Secteur soit conscient des facteurs qui pourraient influer sur la réussite de la BNDT, nous n'avons pas trouvé de preuves que les effets aient été analysés soigneusement, ou que l'utilisation qui sera faite des données permettra d'en justifier le coût. Par conséquent, nous croyons que le Secteur devrait maintenant définir la raison d'être du projet et préparer une analyse des options plus précise (paragraphe 17.24).

Le ministère de l'Environnement

18.1 Le nombre de programmes du ministère que celui-ci a évalués, soit moins de 10 p. 100, est insuffisant. Par exemple, il n'a évalué aucun des programmes du Service canadien des parcs, même si la moitié des années-personnes du ministère et un budget de 387 millions de dollars lui sont affectés (paragraphes 18.28 à 18.33).

18.2 Ces lacunes dans le champ d'évaluation pourraient avoir de graves conséquences pour l'environnement. Le Programme d'immersion des déchets en mer et de travaux maritimes n'a pas été évalué avant 1988, soit 13 ans après sa mise en oeuvre. L'évaluation a révélé de graves problèmes qui pourraient avoir existé dès le tout début (18.39 à 18.43).

18.3 La qualité des évaluations effectuées est insatisfaisante. Des cinq que nous avons examinées, seule celle sur le Programme d'immersion des déchets en mer et de travaux maritimes était acceptable, ce qui soulève des questions au sujet de la mesure dans laquelle la direction et le Parlement peuvent se fier aux constatations des évaluations du ministère, qui sont censées indiquer l'efficacité de ses programmes. (18.34 à 18.38).

18.4 De sérieuses lacunes au sujet de l'efficacité du Programme d'immersion des déchets en mer et de travaux maritimes étaient sous-estimées de façon importante lorsqu'on en a fait état au Parlement dans la Partie III du Budget des dépenses, pour 1990-1991 (18.44 à 18.46).

18.5 La coordination des mesures environnementales, y compris leur mise en application à tous les paliers de gouvernement, est difficile. Cela est attribuable, en partie, aux aspects complexes des responsabilités fédérales et provinciales qui découlent de la Constitution canadienne. Au sein du gouvernement fédéral, les responsabilités concernant les questions environnementales sont dévolues à plusieurs ministères et organismes. On peut se demander quel est le rôle du ministère de l'Environnement et quel est le palier de gouvernement qui, en fin de compte, est responsable de la salubrité de l'environnement au Canada (18.50 à 18.59).

18.6 La *Loi canadienne sur la protection de l'environnement*, qui est entrée en vigueur en 1988, prévoit la négociation d'ententes entre les gouvernements fédéral et provinciaux au sujet de la réglementation des substances toxiques et de la mise en application des mesures prises à cet effet. Lorsque le présent rapport a été rédigé, aucune entente n'avait été signée (18.64 à 18.67).

18.7 Dans un domaine où le gouvernement fédéral a déjà délégué aux provinces des pouvoirs de surveillance et de mise en application, le pourcentage de conformité au règlement a fortement diminué. Un examen du règlement sur les effluents liquides des mines de métaux, émis en vertu de la *Loi sur les pêches*, révèle que le pourcentage de conformité, qui était de 85 p. 100 en 1982, est tombé à 48 p. 100 en 1988. Des 20 mines qui ne se conformaient pas en 1988, neuf avaient dépassé de 200 p. 100 les normes (18.71 et 18.72).

18.8 Le ministre de l'Environnement doit déposer tous les ans au Parlement un rapport sur l'application de la *Loi canadienne sur la protection de l'environnement*. Aucun rapport n'avait été déposé, à partir du moment de la proclamation de la Loi, en juin 1988, jusqu'au 30 juin 1990, au moment de la rédaction de ce rapport (18.74 et 18.75).

Le ministère des Affaires indiennes et du Nord canadien

Le Programme des affaires du Nord

19.1 Le ministère des Affaires indiennes et du Nord canadien (MAINC) a charge de gérer toutes les terres de la Couronne ainsi que l'utilisation des ressources naturelles au Yukon et dans les Territoires du Nord-Ouest. Ces terres représentent 40 p. 100 de la superficie du territoire canadien et quelque 79 800 Canadiens y habitent. Bien que la *Loi sur le ministère des Affaires indiennes et du Nord canadien* attribue clairement au ministère la responsabilité de la gestion du Nord canadien, il est difficile, en raison des transferts, au fil des ans, de programmes de type provincial aux administrations territoriales, de faire du ministère le seul responsable de la gestion de cette région. Le MAINC, pour la réalisation de ces programmes, a transféré, en 1988-1989, aux administrations territoriales, 825 millions de dollars (paragraphes 19.6 à 19.14).

19.2 Le MAINC n'a pas mis en place de cadre d'évaluation de l'efficacité des règlements des revendications territoriales. Si les règlements énumérés au paragraphe 19.29 sont tous entérinés, les indemnités versées et le coût de leur mise en application se chiffreront au total à plus de 1,9 milliard de dollars (19.32 et 19.30).

19.3 Le MAINC ne dispose pas de plans d'aménagement des terres approuvés, même s'il a engagé à cette fin plus de 20 millions de dollars depuis 1981. Le ministère continue d'allouer plus de cinq millions de dollars par année à ce programme de planification (19.39 à 19.42).

19.4 Le MAINC possède certes des données quantitatives sur les eaux mais il en a, en comparaison, fort peu sur leur qualité. Le MAINC ne fait pas d'inspection rigoureuse du respect des obligations liées aux permis d'utilisation des eaux et ne l'impose pas. Plusieurs formes de contamination de l'eau subsistent (19.55 à 19.88).

19.5 Les recettes tirées des activités minières sont loin d'être ce qu'elles pourraient être. Les taux utilisés pour fixer les droits miniers et les revenus de location de concessions sont les mêmes depuis plus de 60 ans et les redevances pour l'exploitation minière des placers aurifères sont calculées à partir d'une valeur de l'or fixée à 15 $ l'once, ce qui est nettement au-dessous de la valeur actuelle de ce métal (19.105 à 19.107).

Le ministère de la Défense nationale

Gestion des ressources humaines
Planification et gestion du personnel

20.1 Les institutions militaires sont différentes des organismes du secteur public ou privé; il leur faut donc des stratégies de gestion des ressources humaines (GRH) uniques, qui soient adaptées à leurs besoins (paragraphes 20.8 à 20.18).

20.2 Dans chacun des secteurs que nous avons examinés dans le cadre de notre vérification de la GRH au ministère de la Défense nationale (MDN), soit la planification et la gestion du personnel, les conditions de service, l'instruction et le soutien médical, nous avons décelé les lacunes suivantes :

- Le système de GRH n'est pas conçu pour les situations de combat ou de guerre et s'est révélé très insuffisant durant des exercices simulant des conditions de temps de guerre (20.35 à 20.45);
- La gestion au jour le jour des ressources humaines du MDN pourrait être grandement améliorée, et des économies considérables pourraient être réalisées (20.41 à 20.44 et chapitres 21, 22 et 23);
- Comme nous l'avons signalé dans nos rapports de 1984 et de 1987, le ministère doit adopter une optique à plus long terme pour le guider dans la GRH et les autres activités ministérielles (20.32 à 20.34).

20.3 En ce qui concerne la gestion du personnel militaire, un élément important et crucial du système de GRH, nous avons constaté ce qui suit :

- Elle n'est ni conçue, ni utilisée comme un système intégré (20.46 à 20.55);
- Il faudrait des outils et des procédés de gestion efficaces pour comprendre et gérer la dynamique du système de gestion du personnel (20.48 à 20.51);
- Il serait possible d'accroître l'efficience et la rentabilité du processus d'évaluation du mérite (20.56 à 20.59).

Le ministère de la Défense nationale

Gestion des ressources humaines
Conditions de service militaire

21.1 Les conditions de service incluent la solde, les avantages sociaux et les indemnités que reçoivent les membres des Forces canadiennes, ainsi qu'une vaste gamme de services et d'avantages supplémentaires ayant pour but de compenser certaines conditions particulières ou de promouvoir le dévouement et l'esprit militaire. Il y a plus de 170 éléments, dont bon nombre sont conçus en fonction de la nature particulière d'une carrière au sein des forces armées. Parmi les conditions de service, la solde et les indemnités militaires s'élevaient, à elles seules, à 3,3 milliards de dollars en 1989 (paragraphes 21.6 à 21.11).

21.2 Comme ce fut le cas pour les autres fonctions de la gestion des ressources humaines, les conditions de service ont changé sensiblement avec l'unification des forces armées. Les mécanismes actuellement en place pour établir et modifier les conditions de service découlent de changements qui ont été effectués au cours des deux dernières décennies, sans politique ni plans bien définis (21.11 à 21.34).

21.3 Il en est résulté une politique fragmentée relativement aux conditions de service, et une séparation des éléments les uns des autres ainsi que des objectifs du ministère. Ces objectifs sont d'attirer du personnel, de le retenir et de le motiver (21.15 à 21.43).

21.4 Nous nous interrogeons sur de nombreux aspects du caractère équitable, de la pertinence et du but des éléments présentement en place. Nous mettons également en doute la validité et l'efficience d'un grand nombre de processus de gestion (21.17 à 21.35).

21.5 Nous recommandons un examen fondamental et systématique des conditions de service. Nous recommandons aussi que soient revus et modifiés les mécanismes qui sont utilisés pour les administrer, y compris la liaison entre le ministère de la Défense nationale et le Conseil du Trésor (21.35 à 21.44).

Le ministère de la Défense nationale

Gestion des ressources humaines
Instruction et formation

22.1 Un imposant réseau d'écoles, de collèges et d'installations d'instruction spécialisée dispense l'instruction et la formation dont le personnel des Forces canadiennes a besoin en temps de paix. En temps de guerre, ce même réseau doit pouvoir fournir, de façon continue, un grand nombre de personnes bien formées pour remplacer les blessés et accroître les effectifs (paragraphe 22.6).

22.2 Nous avons noté qu'il était possible d'améliorer l'efficience du service de l'instruction. D'après les stagiaires interrogés au cours d'un sondage, 27 p. 100 de l'instruction individuelle dispensée par le Service de l'instruction des Forces canadiennes portait sur des tâches que la personne pouvait déjà accomplir et 35 p. 100, sur des tâches qu'elle n'aurait pas à effectuer à son prochain poste. L'instruction dont il est question coûte environ 165 millions de dollars par année. Certains de ces coûts pourraient être réduits, par exemple, grâce à une présélection des candidats, à une formation en cours d'emploi accrue ou à l'élimination de l'instruction inutile. Il est également possible de confier l'instruction à l'extérieur (22.13 et 22.31).

22.3 Les Forces canadiennes doivent offrir des cours de langues à un grand nombre de candidats, dans une organisation où les militaires changent de poste tous les deux à cinq ans. Depuis 1980, le programme d'enseignement des langues officielles a coûté 500 millions de dollars, les salaires des stagiaires compris. Selon nous, il faudrait réévaluer le nombre de postes bilingues ainsi que leurs exigences linguistiques, ce qui permettrait de déterminer les objectifs de la formation linguistique. Celle-ci pourrait être plus productive si l'on procédait à une présélection des candidats en fonction de leur aptitude à apprendre une langue seconde et si l'on affectait les stagiaires formés à des postes où ils peuvent utiliser leur deuxième langue. Les niveaux de connaissances linguistiques des postes établis ne correspondent pas aux exigences de l'emploi (22.32 et 22.57).

22.4 Quant aux programmes de perfectionnement professionnel, ils auraient besoin d'être intensifiés. Les collèges militaires coûtent cher, et les inscriptions ne sont pas établies en fonction des besoins des Forces canadiennes. Le ministère estime que deux collèges au lieu de trois suffiraient à la demande. Les Forces canadiennes n'ont pas déterminé la formation et l'instruction nécessaires aux officiers supérieurs et généraux (22.58 et 22.70).

22.5 Le ministère a amélioré l'acquisition de l'infrastructure d'instruction dans le cadre de ses acquisitions des principaux systèmes d'armes. Nous avons toutefois décelé certains problèmes dans les projets que nous avons étudiés. L'infrastructure d'instruction est insuffisante, ce qui a entraîné des lacunes opérationnelles et un retard considérable dans les projets de remplacement du matériel d'instruction (22.71 et 22.77).

Le ministère de la Défense nationale

Gestion des ressources humaines
Soutien médical

23.1 Le réseau de soutien médical est un élément crucial des Forces armées canadiennes (paragraphes 23.5 et 23.6).

23.2 Le réseau de soutien médical n'a pas été conçu en fonction des exigences du temps de guerre. Il vise plutôt à répondre aux besoins du temps de paix. En raison des lacunes actuelles, la capacité des Forces canadiennes de fournir un soutien médical complet et continu en temps de guerre est mise en question (23.21).

23.3 En comparaison avec des hôpitaux civils semblables, le taux d'utilisation des hôpitaux militaires en temps de paix est faible, et le coût par journée d'hospitalisation est élevé, en grande partie parce que la dotation en personnel des hôpitaux militaires est établie en fonction d'un taux d'utilisation bien supérieur à l'occupation réelle (23.22 à 23.29).

23.4 Le ministère doit donc déterminer le niveau minimal de ressources médicales qui permettrait l'expansion nécessaire en cas de guerre. Il devrait aussi envisager des moyens d'améliorer l'efficience des services, par exemple compter davantage sur les réservistes, avoir recours aux hôpitaux civils pour les traitements plus spécialisés et ajuster la dotation selon le nombre de patients (23.26 et 23.36).

Le ministère du Revenu national, Impôt

Exécution de la *Loi de l'impôt sur le revenu*

24.1 Une proportion appréciable des activités économiques imposables exercées au Canada échappent à l'impôt. Le ministère consacre un tiers de ses ressources à des activités d'exécution. Ces activités ont entraîné, en 1989-1990, des cotisations additionnelles d'impôt s'élevant à plus d'un milliard de dollars (paragraphes 24.6 à 24.13, 24.31 à 24.35 et 24.37).

24.2 Les vérifications et les autres mesures d'exécution effectuées manuellement prennent plus de temps depuis quelques années. Simultanément, le pourcentage de la population touché par ces mesures a diminué à un niveau si bas qu'il y a lieu de se demander si les mesures d'exécution sont réellement un élément dissuasif efficace pour combattre l'inobservation (24.17 à 24.30 et 24.36).

24.3 La productivité et le pourcentage touché peuvent être accrus. Les rapprochements effectués par ordinateur peuvent être multipliés, les exigences de déclaration peuvent être accrues, la sélection des contribuables à soumettre à des mesures d'exécution peut se faire avec de meilleures méthodes, et la technologie peut être utilisée davantage (24.38 à 24.65).

24.4 Le ministère n'est pas assez équipé pour pouvoir garantir la présence de ressources humaines dont le nombre et la qualité sont suffisants pour faire face à des circonstances très difficiles. Toutefois, la direction a élaboré un plan détaillé de mesures qui visent à répondre à de nombreux problèmes de ressources humaines (24.66 à 24.80).

24.5 Les renseignements concernant les ressources consacrées à l'exécution et les résultats obtenus en la matière figurant dans la Partie III du Budget des dépenses sont incomplets et manquent de cohérence (24.81 à 24.93).

Le Bureau du surintendant des institutions financières

25.1 Le Bureau du surintendant des institutions financières (BSIF), constitué en 1987, a réalisé des progrès notables dans l'établissement d'un cadre efficace d'inspection des institutions de dépôts. Au nombre de ses initiatives, citons l'amélioration de son personnel professionnel, l'établissement de relations de travail plus étroites avec les conseils d'administration, les vérificateurs externes, les associations industrielles et les organismes professionnels, de même que la mise au point de méthodes détaillées d'inspection dans certains domaines clés (paragraphes 25.4 et 25.17 à 25.21).

25.2 En dépit des progrès enregistrés, d'autres améliorations importantes sont nécessaires. Le BSIF prend déjà des mesures pour relever bon nombre de ces défis. Le Bureau doit notamment veiller à :

- bien mettre en place les méthodes de surveillance des activités courantes des institutions (25.28 à 25.42);
- accorder une attention particulière à l'amélioration des méthodes d'évaluation des risques lors des inspections annuelles (25.43 à 25.65);
- appliquer pleinement les méthodes d'évaluation des risques que posent les filiales de valeurs mobilières aux institutions (25.57 à 25.62);
- clarifier et à affermir les méthodes et les pratiques lorsqu'il se fie au travail des vérificateurs externes et internes (25.66 à 25.76);
- améliorer les méthodes permettant de vérifier si les institutions se conforment aux lois, aux règlements et aux lignes directrices applicables (25.82 à 25.86);
- donner la priorité à une meilleure coordination des activités avec la Société d'assurance-dépôts du Canada (SADC) et, le cas échéant, avec les organismes provinciaux de réglementation (25.87 à 25.95);
- accorder une attention immédiate à l'élaboration de plans de formation du personnel et aux activités de formation (25.101 à 25.106).

25.3 En général, le BSIF applique des méthodes satisfaisantes pour élaborer des politiques de réglementation et rendre des décisions sur l'interprétation de la loi et des lignes directrices. Il a fait des progrès en matière de planification institutionnelle et de pratiques de gestion des ressources humaines (25.97 à 25.100 et 25.108).

La Gendarmerie royale du Canada

Application des lois fédérales

26.1 Dans le domaine de la lutte antidrogue, il n'existe pas d'entente officielle ni de planification commune entre la Gendarmerie royale du Canada (GRC) et le ministère du Revenu national, Douanes et Accise (Douanes Canada). Aux points d'entrée au pays, les deux organismes appliquent des stratégies différentes et ne sont pas en mesure de collaborer pleinement, ce qui peut réduire leur capacité d'enrayer les grands réseaux de trafic de stupéfiants (paragraphes 26.32 à 26.42).

26.2 La GRC ainsi que Douanes Canada sont chargés de l'application de la *Loi sur les douanes*. Toutefois, bien que ces deux organismes aient signé une entente, ils agissent comme deux entités distinctes et indépendantes pour faire respecter la même loi (26.49 à 26.56).

26.3 La GRC devrait tisser des relations plus étroites avec les ministères au moyen :

- d'accords précisant leurs rôles et responsabilités propres;
- de processus communs de planification afin d'établir des stratégies, des objectifs et des priorités uniformes portant sur l'application de la loi ainsi que les niveaux de ressources et les normes de rendement;
- de compte rendus sur le rendement fournis régulièrement aux ministères clients (26.26).

26.4 La GRC n'a pas rectifié les lacunes de longue date associées à ses systèmes d'information de gestion. Ceux-ci ne peuvent fournir ni à la direction de la GRC ni aux ministères clients les données essentielles sur le rendement (26.90 à 26.94).

26.5 Le Programme des douanes et de l'accise et le Programme de la police économique de la GRC sont touchés par le taux élevé de roulement du personnel. Ainsi, les employés affectés à ces programmes ne possèdent pas suffisamment d'expérience pertinente à leurs fonctions. Or, d'après la GRC, c'est ce dont les ministères clients se plaignent le plus (26.95 à 26.101).

26.6 Au cours des 15 dernières années, de nombreuses études ont souligné, mais n'ont pas permis de rectifier diverses lacunes du système d'application des lois fédérales. Les efforts déployés par la GRC permettront de régler certains problèmes. Toutefois plusieurs questions fondamentales se posent encore, notamment la nécessité de définir clairement le rôle de la GRC. Le gouvernement sera appelé à proposer des orientations ou à intervenir (26.109 à 26.115).

La Gendarmerie royale du Canada

Services de soutien aux organismes canadiens chargés de l'application de la loi

27.1 La Gendarmerie royale du Canada (GRC) prête son concours, sur demande, à plus de 400 organismes chargés de l'application de la loi en assurant certains services spécialisés notamment la formation des policiers, les services de laboratoires judiciaires, l'identification par les empreintes digitales et un système informatisé de données portant sur l'application de la loi. Ces services contribuent à l'efficacité du maintien de l'ordre dans l'ensemble du Canada (paragraphes 27.5 à 27.8).

27.2 En général, les usagers sont satisfaits du niveau, du genre et de la qualité des services de soutien que leur offre la GRC (27.33 à 27.35, 27.49 et 27.106). Toutefois, la vérification des quatre entités de la GRC qui fournissent ces services nous a permis de relever ce qui suit :

- Le Service des laboratoires judiciaires est actuellement à remplacer certains de ses laboratoires offrant des services complets par de nouvelles installations où l'on pourra obtenir également tous les services. Ce faisant, on a négligé d'envisager d'autres solutions plus avantageuses comme une combinaison de laboratoires tous services et de laboratoires proposant un moins grand nombre de services (27.25 à 27.31).
- Bien que le Centre d'information de la police canadienne (CIPC) puisse compter sur un certain nombre de mesures de contrôle, il serait préférable que le Centre se renseigne davantage et exerce un contrôle plus rigoureux sur toute éventuelle utilisation abusive des données (27.56 à 27.58).
- Le Collège canadien de police n'a pas mis à jour son programme pédagogique à long terme. Il continue donc d'offrir un enseignement pratiquement inchangé, ce qui pourrait nuire à l'exercice de son mandat (27.68 à 27.72).
- Le Service de l'identité judiciaire n'a pas toujours suffisamment renseigné ses usagers ou travaillé de concert avec eux afin de s'assurer de leur offrir les services qu'ils recherchent (27.79 à 27.97).

27.3 Bien qu'un certain nombre de ces services soient interreliés ou complémentaires, ils ont évolué chacun de leur côté et fonctionnent indépendamment les uns des autres. Chaque organisme a défini pour son propre compte la nature et les limites de ses services. Il serait préférable que le fonctionnement de ces services repose sur une philosophie unifiée et que l'on envisage pour l'avenir des services plus intégrés (27.100, 27.101, 27.107 et 27.108).

27.4 La vitalité des organismes de services repose sur la participation des usagers. Actuellement, il n'existe aucune approche uniforme portant sur la contribution ou la participation des usagers. Seulement deux de ces organismes de services ont constitué des comités consultatifs. Il est important que les usagers participent davantage à la conception, à l'élaboration et au fonctionnement de ces services (27.33, 27.47, 27.67, 27.81 à 27.83 et 27.95).

Le Secrétariat d'État

Citoyenneté

28.1 Des imprécisions à la *Loi sur la citoyenneté* rendent son administration difficile. Depuis 1985, le ministère s'interroge sur les modifications à y apporter. Cependant, au 1er avril 1990, aucun projet de modification à la Loi n'avait encore été présenté à la Chambre des Communes (paragraphes 28.22 à 28.26).

28.2 Plusieurs changements sont nécessaires pour traiter les demandes d'attribution et de preuve de citoyenneté d'une façon plus efficiente et en temps opportun, tel l'établissement d'une norme de rapidité de service, une meilleure répartition des ressources et des améliorations au processus de traitement des demandes (28.37 à 28.53).

28.3 La détérioration dans la rapidité du service d'émission des preuves de citoyenneté s'est traduite par une augmentation correspondante de l'émission, sans frais, de lettres de confirmation de citoyenneté canadienne. Pour l'année 1989-1990, plus de 10 000 de ces lettres ont été émises, réduisant ainsi l'efficience des opérations et créant un risque qu'elles soient utilisées frauduleusement (28.54 à 28.56).

28.4 Un retard de 13 mois dans la mise en application des augmentations progressives des tarifs, pour les services de citoyenneté, se sera traduit par un manque à gagner de l'ordre de 2,7 millions de dollars pour la période de 1988-1989 à 1991-1992 (28.77 à 28.81).

28.5 Le processus d'approbation des subventions et des contributions du Développement de la citoyenneté est long et lourd. De plus, environ 20 p. 100 des Centres d'accueil autochtones financés par l'entremise du programme de Développement de la citoyenneté ne répondaient pas à un critère d'admissibilité, soit d'être situés dans une région urbaine (28.96 à 28.104).

28.6 Depuis 1990-1991, la Partie III du Budget des dépenses de Multiculturalisme et citoyenneté n'indique pas séparément les frais d'opération de l'Enregistrement de la citoyenneté. Il est donc impossible d'établir le coût total de cette activité. De plus, les données sur le rendement ne sont pas divulguées pour les activités Enregistrement de la citoyenneté et promotion du civisme et Développement de la citoyenneté (28.106 à 28.109).

Le Secrétariat d'État

Aide à l'enseignement

29.1 Il n'y a aucun objectif précis en matière d'aide à l'enseignement postsecondaire (paragraphes 29.21 à 29.27).

29.2 Le ministère ne s'acquitte pas de façon satisfaisante de son mandat de coordination fédérale en matière d'enseignement postsecondaire (29.29 à 29.31).

29.3 L'information destinée au Parlement sur l'enseignement postsecondaire est incomplète (29.39 à 29.44).

29.4 Il semble y avoir un manque d'urgence dans la correction des faiblesses du Programme canadien de prêts aux étudiants. Malgré le fait que la direction ait pris certaines mesures correctives, des lacunes importantes dans la gestion du Programme, décelées au préalable, demeurent non résolues (29.51 à 29.59). Le Programme n'est donc pas géré avec un souci d'économie et d'efficience, et en conformité avec la loi, comme en témoignent les exemples suivants :

- le ministère a consacré sept années et a investi 5 millions de dollars dans l'élaboration d'un système informatique non opérationnel (29.52);
- il y a eu un dépassement des plafonds autorisés de prêts, de 1984-1985 à 1988-1989, estimé à 264 millions de dollars (29.64 à 29.67);
- environ 15 millions de dollars de prêts ont été versés en trop chaque année à des étudiants qui ont abandonné leurs cours. Puisque ces sommes ne sont pas recouvrées au moment de l'abandon, cela entraîne des coûts supplémentaires annuels pour le Programme estimés à 10 millions de dollars (29.86 à 29.91);
- un étudiant sur six fait défaut de paiement sur son prêt. Depuis le début du Programme, en 1964, le gouvernement fédéral a versé aux institutions prêteuses 858 millions de dollars en réclamations pour défaut de paiement et seulement 297 millions de dollars ont subséquemment été recouvrés des étudiants, soit un taux de recouvrement de 35 p. 100. Les prêts à recevoir représentaient 24 p. 100 des recettes non fiscales à recevoir par le gouvernement du Canada, au 31 mars 1989 (29.92 à 29.107).

29.5 L'information sur le Programme canadien de prêts aux étudiants destinée au Parlement est incomplète et erronée (29.113 à 29.118).

Le ministère des Transports

Les aéroports

30.1 Des années de planification pour l'aménagement de nouvelles pistes urbaines. Après des années de planification pour l'agrandissement des réseaux de pistes aux aéroports de Vancouver et de Toronto (Pearson), un dilemme n'est toujours pas résolu : comment répondre à la demande créée par le trafic aérien qui ne cesse d'augmenter tout en assurant la protection de l'environnement (paragraphe 30.11).

30.2 La lutte des cinq dernières années à la suite de la déréglementation. Étant donné les restrictions financières imposées par le gouvernement, le ministère des Transports a de la difficulté à satisfaire la demande créée par la déréglementation dans les aéroports servant de plaques tournantes. Nous sommes d'avis que d'autres questions de longue date ont nui à la capacité d'action du ministère. Le ministère ne disposait pas d'un cadre stratégique national pour le réseau d'aéroports, ni de critères pour rationaliser sa participation financière aux activités aéroportuaires. À l'heure actuelle, il ne dispose d'aucun plan pour combler un manque à gagner de 1,4 milliard de dollars visant à répondre aux besoins en capital des cinq années à venir. En 1988-1989, les aéroports financés par l'État continuaient de dépendre des crédits de l'État et des recettes que leur procure la taxe sur les billets pour financer 88 p. 100 de leurs coûts (30.12 à 30.36).

30.3 Impréparation au contexte commercial d'aujourd'hui par suite de la déréglementation. La vérification a permis de déceler que l'organisme est appelé à oeuvrer dans un contexte commercial concurrentiel tout en étant assujetti à des règles bureaucratiques. Après des années d'efforts, le ministère n'a toujours pas de politique d'établissement des prix qui soit compatible avec ses objectifs actuels de recouvrement des coûts, tout comme il n'a pas suffisamment d'information à jour sur les coûts.

30.4 Nous avons évalué à 61 millions de dollars les coûts non recouvrés en 1987-1988 pour le traitement des passagers. Selon nos estimations, les redevances de stationnement renoncées peuvent atteindre 11 millions par année. La taxe générale d'aérogare n'est perçue qu'à 14 aéroports financés par l'État, entraînant ainsi des pertes annuelles de revenus pouvant atteindre six millions (30.37 à 30.67).

30.5 Inquiétudes face à l'avenir. À notre avis, la gestion financière du Fonds renouvelable des aéroports demeure déficiente. Nous nous demandons si le ministère a l'expérience financière requise pour s'occuper des arrangements financiers et de la cession des aéroports que l'on envisage.

30.6 Le ministère travaille actuellement à l'élaboration d'un modèle de prise de décisions afin d'évaluer les moyens utilisés pour exploiter les sources possibles de financement provenant du secteur privé. Nous croyons que le ministère doit effectuer un examen a posteriori du projet de l'aérogare 3 avant de lancer des projets similaires. Cet examen doit être axé sur la méthode utilisée pour le calcul des retombées prévues pour l'État dans l'éventualité où le ministère choisirait de faire affaire avec un promoteur du secteur privé. De plus, l'examen doit permettre de déterminer si la protection des intérêts de l'État est adéquate en matière de partage des revenus (30.68 à 30.89).

L'organisation et les programmes du Bureau du vérificateur général

31.1 Le présent chapitre décrit l'organisation et les activités du Bureau, notamment certains travaux dont la visibilité est moins grande (paragraphe 31.11).

31.2 Au cours de l'exercice 1989-1990, le Bureau a été nommé vérificateur attitré de nouvelles grandes sociétés d'État (31.13).

31.3 Les contraintes financières et autres rendent difficile de respecter le cycle prévu pour les vérifications d'optimisation des ministères et des organismes (31.24).

31.4 Conformément à une nouvelle orientation favorisant l'investissement dans les ressources humaines, le Bureau accorde plus d'importance à la formation et au perfectionnement (31.40).

31.5 L'évolution des organismes vérifiés sur le plan technologique aura une incidence de plus en plus grande sur le Bureau (31.45).

31.6 Les travaux du Bureau sur la scène internationale portent fruit (31.53).

31.7 Le Bureau a été l'hôte d'un symposium sur la communication de l'information financière où les participants ont insisté sur le défi que représente la présentation aux législateurs d'une information financière améliorée (31.62).

Report of the
Auditor General of Canada
to the House of Commons

Fiscal Year Ended 31 March 1990

©Minister of Supply and Services Canada 1990
Cat. No. FA1-1990E
ISBN 0-662-18138-7
Copies françaises aussi disponibles

AUDITOR GENERAL OF CANADA VÉRIFICATEUR GÉNÉRAL DU CANADA

To The Honourable the Speaker of the House of Commons:

I have the honour to transmit herewith my Report to the House of Commons for the fiscal year ended 31 March 1990, to be laid before the House in accordance with the provisions of section 7(3) of the Auditor General Act.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

OTTAWA, October 1990

Table of Contents

Chapter **Page**

Introduction 11

1. Matters of Special Importance and Interest 19

2. Observations by the Auditor General on the Financial Statements of the Government of Canada 47

Other Audit Observations

3. Audit Notes 63

4. Follow-up of Recommendations in Previous Reports 99

5. Job Classification: A Follow-up 133

Special Studies

6. The Audit Regime for Crown Corporations 151

7. Values, Service and Performance 177

8. Efficiency in Government: A Special Study 201

Government-wide and Special Audits

9. Information Security Audit 229

10. The Departments of National Revenue, Taxation and Finance - Charities, Non-Profit Organizations and the Income Tax Act 253

11. Capital Projects 281

Comprehensive Audits

12. Immigration - Management of the Immigration Program 299

13. Immigration - Foreign Delivery 321

14. Immigration - Refugees 347

15. Immigration - Control and Enforcement 367

16. Consumer and Corporate Affairs 395

A detailed table of contents precedes each chapter.

Table of Contents (cont'd)

Chapter **Page**

Comprehensive Audits (cont'd)

17. Department of Energy, Mines and Resources - Surveys, Mapping and Remote Sensing Sector 423

18. Department of the Environment 437

19. Department of Indian Affairs and Northern Development - Northern Affairs Program 455

20. Department of National Defence - Human Resource Management - Planning and Personnel Management 483

21. Department of National Defence - Human Resource Management - Military Conditions of Service 503

22. Department of National Defence - Human Resource Management - Training and Education 519

23. Department of National Defence - Human Resource Management - Medical Support 541

24. Department of National Revenue, Taxation - Enforcing the Income Tax Act 555

25. Office of the Superintendent of Financial Institutions 583

26. Royal Canadian Mounted Police - Federal Law Enforcement 609

27. Royal Canadian Mounted Police - Support Services to Canadian Law Enforcement Agencies 633

28. Department of the Secretary of State - Citizenship 659

29. Department of the Secretary of State - Education Support 685

30. Department of Transport - Airports 713

*****

31. Organization and Programs of the Office of the Auditor General 745

A detailed table of contents precedes each chapter.

Table of Contents (cont'd)

Appendices **Page**

A Auditor General Act A-1

B Financial Administration Act - Extracts from Part X B-1

C Reports of the Standing Committee on Public Accounts to the House of Commons C-1

D Report on Quarterly Reports D-1

E External Advisors to the Office of the Auditor General E-1

A detailed table of contents precedes each chapter.

Report of the Auditor General to the House of Commons for the Fiscal Year Ended 31 March 1990

Introduction

Report of the Auditor General to the House of Commons for the Fiscal Year Ended 31 March 1990

Introduction

The principal functions and responsibilities of the Auditor General of Canada are set out in the Auditor General Act. My responsibilities in respect to those Crown corporations for which I have been appointed auditor are set out in the Financial Administration Act. The Auditor General Act is included as Appendix A to this report and the relevant sections of the Financial Administration Act as Appendix B.

The financial statements of the Government of Canada for the fiscal year ended 31 March 1990, which have been prepared by the Receiver General for Canada in accordance with the provisions of section 64 of the Financial Administration Act and appear in Volume I of the Public Accounts of Canada, have been examined by me as required by section 6 of the Auditor General Act.

In compliance with section 7 of the Auditor General Act, my report for the fiscal year ended 31 March 1990 is presented herewith.

As auditor of the accounts of Canada, including those relating to the Consolidated Revenue Fund, I conducted such examinations and inquiries as I considered necessary to enable me to report as required by the Auditor General Act.

With the exception of two matters reported in my 1989 Report, departments, agencies, and the Privy Council Office provided my Office with the information and explanations required to date, including Cabinet documents.

One of the matters I reported in 1989 was that I had not received the information needed to complete my audit of expenses claimed by ministers for government travel and their use of the Administrative Flight Services -- the VIP Fleet. The status of this matter is discussed in Chapter 1.

1

Matters of Special Importance and Interest

Matters of Special Importance and Interest

Main Points

1.1 In this chapter, I highlight issues that I believe to be of particular importance. In this last year of my term, I look back over changes in federal government management in the eighties, and identify future challenges (paragraphs 1.8 to 1.12, and 1.32 to 1.43)

1.2 There have been significant improvements during my term, notably in Crown corporations, financial control and information to Parliament. Nevertheless, a lack of a sense of urgency which I noted in 1981 still exists in too many cases. Slow action -- or inaction -- to correct identified deficiencies leads to inefficiency, and can affect employee morale. I cite examples of good responsiveness, hoping that more departments and agencies will react in a timely manner. Computer security, among other matters, requires urgent action (1.74 to 1.111).

1.3 Particular concerns about enforcement of rules, public safety and the need for better inter-departmental co-ordination have been identified as a result of our sectoral audits (1.56 to 1.73)

1.4 The key to improved government operations is people. Supported by many examples in this year's Report, I repeat my message of last year that fundamental change -- legislative and administrative -- is necessary in the way we manage people. The government is taking important steps in this direction (1.112 to 1.128).

1.5 Comprehensive auditing has evolved over the decade in ways that I think better serve Parliament. I highlight two matters requiring attention. Reporting my audits as they are completed, rather than annually, would further enhance our service to Parliament. And the question of my access to ministers' travel expenditure information remains unresolved (1.168 to 1.176).

1.6 I conclude with personal reflections on my experience as Auditor General, and on the importance of public service (1.177 to 1.191).

Table of Contents

Paragraph

Introduction 1.7

The Past Decade with A Look to the Future 1.12

Improving Control and Government Accountability

Crown Corporations - A Much Improved Government Activity 1.13

Better Information for Parliament 1.23
The Public Accounts - an unqualified opinion (1.28)
Challenge for the future (1.32)

Serving Accountability Through Audit 1.34
Protection of the natural environment : a prime example of the need for accountability (1.45)

Issues of Enforcement and Public Safety 1.56
How effective are compliance strategies? (1.59)
When both sides ignore the rules (1.64)
Enforce the rules or change them (1.66)
The need for better inter-departmental co-operation (1.69)

A Sense of Urgency 1.74

Security of Information 1.79

Canada Student Loans 1.84

Department of Transport 1.89

Safeguarding and Collecting of Non-Tax Revenues and Receivables 1.93

National Defence - An Example of Responsiveness 1.97
The need for a force structure for the longer term (1.105)

Action Needs Commitment 1.110

Management of People and Public Service Reform

People are the Key to Performance 1.112
Job classification: an urgent need for reform (1.120)
Needed: appropriate training (1.121)
Needed: recognition and rewards (1.127)

Values, Service and Performance 1.129

Public Service 2000 1.140

Table of Contents (cont'd)

Paragraph

The Pursuit of Efficiency 1.146

Serving Parliament Through Audit

- Evolution of Comprehensive Auditing 1.156
- Parliamentary Audits 1.167
- Periodic Reporting 1.170
- Ministerial Travel - Access to Information Unresolved 1.172

Conclusion 1.177

- The Call to Public Service 1.186

Matters of Special Importance and Interest

Introduction

1.7 This is my tenth and last annual Report to the House of Commons.

1.8 My term ends in this the twelfth decade of the Office. I have been privileged and honoured to serve my country as its eighth Auditor General. The professional challenge has been exciting as my Office sought and found innovative and effective ways to serve its parliamentary clients better.

1.9 In each of my ten years as Auditor General of Canada, the opening chapter of my annual Report has provided me with an opportunity to address the question of accountability in government for the use of taxpayers' money.

1.10 When I first arrived in Ottawa my impression was of a complex bureaucracy, operating with little sense of urgency in an environment so entangled that decisions and change seemed difficult.

1.11 I soon found that accomplishing something in this complexity seldom takes a straight line; it more often entails a convoluted path around obstacles that can breed frustration and inaction, and put motivation to the test. Nonetheless, I have observed that improvements and change are possible even in times of fiscal restraint and even within certain political constraints. There exists in the public service a core of capable and dedicated managers who are ready and able to effect change in spite of the complexity of the challenge. They are also willing to be accountable for their decisions and actions. These are the capable leaders who forego unproductive battles over turf and instead seek results. Unfortunately, there are some who still persist in wasting taxpayers' funds by failing to take appropriate action or who lack the courage to try something new.

The Past Decade, with a Look to the Future

1.12 During my term, I have noted significant improvements in government operations. Changes include an improved regime for accountability in Crown corporations; more efficient and timely cash management -- with big savings realized; stronger financial control systems; and more descriptive accountability information for Parliament. Attributes of well-performing organizations were identified in a study that my Office undertook, in the hope that other organizations could try to assess ways to help improve their own performance. These are but a few examples of many positive steps over the last few years. I am pleased that my Office has been able to contribute to these advances. However this is no time to be complacent -- as you will see from the contents of this year's Report.

Improving Control and Government Accountability

Crown Corporations - A Much Improved Government Activity

1.13 During the past ten years, a broader framework of accountability by Crown-owned corporations for their use of public money has become firmly established.

1.14 When I began my term as Auditor General in 1981, important Crown corporations issues had, unfortunately, been neither dealt with nor resolved. The government had tabled draft legislation in 1979 (then Bill C-27) and again in 1982 (then Bill C-123); however, neither was enacted. Of all the matters of special importance on which I commented in Chapter 1 of my Report in 1982, I considered the accountability of corporations owned by the government to be the most significant. I was particularly surprised at the magnitude of this sector of government activity (I referred to it as a "sub-government") and at the extent of improvements needed.

1.15 I concluded that Parliament was becoming increasingly isolated from a growing proportion of government activity. I made only two recommendations: that broad legislation governing the accountability of Crown corporations be developed; and that Parliament address the control and accountability of mixed enterprises and other entities in which the Crown is not the sole shareholder.

1.16 In 1984, the government introduced draft legislation to improve the framework for the control and accountability of Crown corporations. Extensive consultation with key participants in the accountability "chain" led to the drafting of amendments to the Financial Administration Act.

1.17 My 1989 Report included the results of our study on the implementation of this new framework. I noted that most of the important elements were in place -- and that more vigilance and stability had characterized the Crown corporations sector in recent years.

1.18 The framework provides a unique audit regime designed to advance the accountability of Crown corporations. This year Chapter 6 presents the results of our review of that audit regime, which I have concluded is appropriate and generally working well. I think the Crown corporation accountability framework will stand the test of time successfully.

1.19 It gives me considerable comfort, as my term comes to an end, to see this Crown corporations sector of government activity being given the recognition and attention that for so long had been lacking. All is not perfect, though. One important area, in my view, still needs attention.

1.20 Crown corporations are created primarily to achieve public policy objectives. The ownership principle as described in the 1979 Report of this Office was that the House of Commons, representing Canadian taxpayers, had a right and a responsibility to ensure that Crown corporations were accountable for achieving government policy objectives.

1.21 Ten years later, in the 1989 Report, I stated:

> While improvement has been achieved regarding the statement of corporate objectives, more attention is needed in regard to linking subsequent performance to stated objectives. If it is important to have clearly stated objectives, it is equally important to have pertinent information on the extent to which such objectives have been met.

1.22 Much has been accomplished. A suitable framework is in place -- and functioning well -- but information on how well Crown corporations are meeting their objectives is still largely inadequate. I believe Crown corporations should be required to indicate the extent to which they are fulfilling the purposes for which they were established. I am confident that the spirit of constructive co-operation displayed in recent years can be focussed on this issue, to ensure that it is properly dealt with in a timely manner. Until then it is as though the improved accountability legislation has dispersed the fog but members of Parliament still do not know whether the ships are on their charted courses.

Information on how well Crown corporations are meeting their objectives is still largely inadequate.

Better Information for Parliament

1.23 Throughout my term, I have been concerned about the adequacy and credibility of the financial information the government provides to Parliament.

1.24 To be useful, information must be relevant, credible and understandable. It should help members of Parliament scrutinize spending intentions and program results, and it should be available to them on a timely basis.

1.25 The Government of Canada is a leader in reporting financial information to legislators. The information in Budget and Public Accounts documents has improved considerably over the past ten years.

1.26 The annual Fiscal Plan, now streamlined and easier to read, is supplemented by concise quarterly reports on financial and economic performance -- the Fiscal Monitor and the Economy in Brief.

1.27 The Estimates have been expanded to include an overview of the government's expenditure plan - Part I - and a detailed expenditure plan for each department and agency - the Part III documents.

The Public Accounts - an unqualified opinion

1.28 In past years my audit opinion on the government's financial statements has contained significant reservations. As a consequence, I have reported that the financial statements did not present information fairly.

1.29 This year I am able to report, to my great satisfaction, that for the first time my audit opinion on the statements is unqualified -- it contains no auditor's reservations. The government's financial statements now present information on its financial position that satisfies the concerns I previously had on their fairness.

1.30 The Minister of Finance and the President of the Treasury Board are responsible for this significant step forward.

1.31 The government has improved its main financial reports over the past ten years. It has incorporated into them some ideas suggested by our 1984 Federal Government Reporting Study, a joint effort by my Office and the U.S. General Accounting Office. I feel that this study has made a useful contribution. The main finding was that members of Parliament need a comprehensive yet concise annual financial report. Others have also provided related support and encouragement. For example, the Canadian Institute of Chartered Accountants Public Sector Accounting and Auditing Committee (PSAAC) has published five major statements on financial reporting by governments. Each is designed to help Canadian governments improve the credibility of their financial statements. More PSAAC statements are anticipated.

> *The government has improved its main financial reports over the past ten years.*

Challenge for the future

1.32 Looking ahead, I would encourage the government to do three things to further improve information for Parliament:

- prepare the summary financial statements in accordance with PSAAC recommendations;
- strengthen reporting on performance; and
- publish a concise, readable and useful annual financial report.

1.33 I believe that members of Parliament must have useful information to assess the performance of individual programs and the desirability of continuing them. Information that is credible, relevant and understandable makes the job easier.

Serving Accountability Through Audit

1.34 In 1981, soon after taking Office, I developed a Mission Statement as a guide for myself and my Office. Although I have been comfortable with it since, I felt that it needed to reflect what I have learned and to be clearer on the fundamental issue of my service to the House of Commons. The Mission Statement now reads as follows:

> The Office of the Auditor General of Canada serves the House of Commons by conducting independent audits and examinations. We encourage accountability and improvements in government operations.

1.35 Serving accountability is the central role of the legislative auditor. In this report, I want to offer some personal views on the accountability of government to the House of Commons. Strengthening accountability for the public purse has been a constant theme of my reports over my term in office.

1.36 In my Office we view accountability as the obligation to answer for a responsibility conferred -- a simple and time-tested definition supplied by the Wilson Committee, the independent review committee that was instrumental in updating the mandate of the Auditor General of Canada in the mid-1970s.

1.37 Accountability therefore depends on the quality of the reporting on performance. It stands to reason that the reporting should come from those to be held to account and that it should be directed to, and be useful to, those demanding accountability.

Accountability is the obligation to answer for a responsibility conferred. It depends on the quality of the reporting on performance.

1.38 This was the philosophy behind a government initiative that I regard as a breakthrough in parliamentary accountability. It was the introduction, in 1982, of the Part III Estimates. They are designed to explain to the House what each department or agency intends to accomplish with the funding and resources sought, and whether it has met its program objectives. The breakthrough lay in the fact that the departments themselves do the reporting on these programs and that these Estimates documents are fully intended as accountability reports on departmental performance. A vehicle for effective accountability reporting is in place.

1.39 In the earlier years we encouraged their development rather than auditing their quality as accountability documents. But in my 1988 Report I concluded that they needed to be clearer for the reader and they needed to be more effective as accountability reports. This means reporting program intentions, constraints and accomplishments and explaining variances. Making these reports more effective will take management effort by the government, but it will also require standing committees of the House to tell government what they expect in the Part IIIs.

1.40 Within government, a significant accountability project is IMAA -- Increased Ministerial Authority and Accountability. The government's intention is to establish a process whereby the deputy ministers of departments gain greater authority and flexibility to manage, but at the same time agree to account more effectively to the Treasury Board for results. My impression thus far is that the concept holds promise but its implementation has been slow -- possibly because departments and agencies have encountered so much difficulty in reporting on their performance. Overcoming this problem is key to making IMAA work.

1.41 In summary I would say that the government has taken important positive steps in accountability in this past decade, especially in the area of Crown corporations, but the House of Commons has a right to expect still more. At the level of the House of Commons there must be the will to achieve effective accountability -- to exact it, if need be. But no one is perfect, including government management. There must be a fair assessment of those who are willing to account fairly and completely.

1.42 To the fullest extent possible there needs to be a clear understanding, between those being held accountable and those holding to account, of what the performance expectations are, recognizing the nature of the external constraints on accountable management. In a parliamentary system this understanding is difficult to achieve, for a number of reasons. The time constraints on members of Parliament and their information overload are one set of factors. There is also a perceived orientation toward "blame" that must be overcome before management will be willing to disclose more fully. Yet, better disclosure will produce higher confidence and trust by those who look for accountability. The House, government management and my Office need to work together to find ways and means of improving the quality of the accountability relationship.

The government has taken important positive steps in accountability in the past decade.

1.43 In the community of interests involved with accountability, a recent helpful step toward better accountability was offered by the Canadian Comprehensive Auditing Foundation in its study on the reporting and auditing of effectiveness. It pointed out that management itself should be reporting on its effectiveness.

1.44 To make clear what I mean about accountability, I wish to use as an example a concern vital to us all: the environment.

Protection of the natural environment: a prime example of the need for accountability

1.45 The responsibilities for protection of our natural environment are major and shared; accountability for them should be exacted.

1.46 One can look at the environment as a fund: a fund of paramount importance to all. It is shrinking while the number of people who must share it is growing. The share of each person, especially those coming after us, is being reduced by pollution. We can view the collective legislatures as the ultimate embodiment of stewardship, but for practical purposes it is governments that have been given the operating responsibility.

The environment can be seen as a fund that is shrinking while the number of people who must share it is growing.

1.47 The federal government deals with national concerns for the environment, both within Canada and beyond its borders. Issues such as acid rain, pollution of trans-boundary waterways, and our growing alarm about global warming and ozone depletion force us to seek agreements within the international community, as well as within the Canadian community, on protecting our natural environment. It is axiomatic that government be held to account for its responsibilities. Parliament should expect government to devise acceptable means of being held accountable for the conduct of its environmental responsibilities.

1.48 My concern with accountability lies only with the federal government and with the adequacy of its reporting, not with the merits of policy. Within government there is major sharing of responsibility for environmental protection, which must be visible. In government's external reporting the federal responsibility must be clear.

1.49 Here then is a case where government's accountability for its overall set of programs -- the total government effort on the environment -- is more important than focussing on the individual performance of departments as separate units, managing their resources separately and being held to account separately by different House committees. Shared responsibility in government is difficult to deal with. What must be prevented is a diffusion of responsibility to the point where effective accountability is lost.

1.50 This year, Chapter 18 makes some observations about the complexities of federal, provincial and international jurisdictions over environmental issues -- complexities that were evident during recent emergencies. I refer to the Hagersville tire fire, the PCB fire at St-Basile-le-Grand and the Nestucca oil spill on Canada's Pacific coast.

1.51 Even within the various levels of governments, jurisdictions overlap. For example, the Department of the Environment has responsibilities under 36 acts. In all, there are over 50 pieces of legislation relating to environmental matters, for which 24 federal government departments or agencies share in the administrative responsibilities.

1.52 These jurisdictional complexities raise the question of which level of government is ultimately responsible for Canada's environmental well-being; in other words, "who is minding the store?"

1.53 The government stated its intention to introduce an environmental strategy for Canada, now scheduled for late 1990 - the "Green Plan" -- which may help clarify responsibilities among federal departments. However, the jurisdictional complexities between federal and provincial governments will continue to exist.

"Who is minding the store?"

1.54 The importance of the environmental issues underscores the expectation that the federal government not only have a plan to deal with these issues but also be able to assert to the House of Commons:

- what the federal government sees as its own overall responsibility for the environment;
- what the federal government sees as the responsibilities of others;
- who within the federal government, is accountable to whom, for what;
- what the federal government expects to accomplish with its environment programs, and how these accomplishments will be assessed and reported. The accomplishment could be identified in terms of results for a particular program, or due regard to the effectiveness of federal government processes involving other jurisdictions;
- what controls exist at the centre, including controls over inter-departmental collaboration, to ensure that the respective and total federal responsibilities are discharged; and
- what is to be the nature and timing of government's accountability reporting to the House of Commons, by each accountable agency that reports to the House and by the federal government as a whole.

1.55 My Office will monitor the adequacy of this accountability reporting

Issues of Enforcement and Public Safety

1.56 A number of chapters this year deal with programs that make and enforce rules. In these chapters -- and similar chapters in previous reports -- there are issues that concern me.

1.57 "Regulatory" is a term that has been used to describe a program that is intended, by applying rules, to direct and control the behaviour of a particular segment of society. These rules are found in statutes, regulations or other legal mechanisms.

1.58 Achieving the objectives of such programs depends on the public's compliance with the rules. This is no simple formula, since compliance is governed by human behaviour. There are different ways to achieve compliance -- ranging from heavy-handed prosecution, to education, to some form of reward for complying. Effectively managing such programs requires a sound knowledge of which strategies work best, and in what circumstances. Sound knowledge requires both day-to-day experience and systematic analysis and evaluation.

Effectively managing regulatory programs requires a sound knowledge of which strategies work best, and in what circumstances.

How effective are compliance strategies?

1.59 I am concerned when I find managers, and Parliament, without systematic information on the effectiveness of these programs' enforcement techniques. One illustration this year is the Immigration Primary Inspection Line (Chapter 15), where all travellers entering Canada are initially screened. It lacks a system to monitor whether the people sent for more detailed inspections are the ones who should be. How, then, can program managers, let alone Parliament, know whether front-line officers are doing an effective job?

1.60 Effective compliance strategies rely to some extent on deterrents. My reports on National Revenue, Taxation (Chapter 24) and Charities, Non-profit Organizations and the Income Tax Act (Chapter 10) deal with enforcement activities -- audits and related activities -- designed to identify those who haven't complied with the Income Tax Act, and to deter others from failing to comply.

1.61 Some segments of society may not view such non-compliance as a serious matter. According to National Revenue, Taxation, over a billion dollars of tax revenue is lost annually as a result of unreported income, overstated expenses or failures to file tax returns at all.

1.62 We found that enforcement activities have declined to very low levels in certain critical areas. There is cause for genuine concern about whether enforcement is an effective deterrent at such low levels.

1.63 The audit of receipts for charitable donations is a case in point. Registration of charities was introduced in 1966 to ensure that these donations could be verified. However, we found that the Department does not have an appropriate audit program to validate charitable donation receipts.

When both sides ignore the rules

1.64 I can understand why people sometimes ignore the rules. But I cannot understand why rules are sometimes virtually ignored by the departments responsible for enforcing them. An example stands out in this year's Report.

1.65 It is in Chapter 15, Immigration - Control and Enforcement. Most removal orders -- an order by an independent adjudicator to remove a person from Canada -- even when enforceable, are not carried out. The means used to delay or cancel a removal order are entirely legal, and indeed the plight of the people involved can often be compelling. Still, how much sense does it make to have an elaborate enforcement program to deter abuses of the system -- a program whose resources have increased by tens of millions of dollars in recent years -- when the actual use of enforcement actions has become the exception?

Enforcement activities have declined to very low levels in certain critical areas.

Enforce the rules or change them

1.66 Public servants often tell us how situations such as these demoralize and frustrate them. When rules are incorporated in a statute they can be difficult to amend and it can be tempting to simply disregard them. However, the credibility of the system demands that they be heeded or changed.

1.67 Immigration's medical screening practices illustrate how difficult -- and yet necessary -- the choice can be. The Immigration Act stipulates that applicants for entry to Canada must not pose a danger to public health or safety. Nor should they create excessive demands on Canadian health or social services. Yet medical examinations do not routinely screen for HIV infection (AIDS) or hepatitis-B, although they do screen for diseases like tuberculosis, where the risk to society is more contained. There are good reasons for and against medical screening for these diseases.

1.68 It is not my intent -- or my place -- to suggest that there should or should not be such screening. I only say that rules which are in place should be heeded, or changed so that the public purse does not finance an enforcement apparatus which is not fully used.

The need for better inter-departmental co-operation

1.69 During my tenure as Auditor General, few things have disturbed me more than jurisdictional conflicts between federal departments. I report several examples this year.

1.70 The first is described in our audit of the RCMP - Federal Law Enforcement (Chapter 26). The RCMP and Customs Canada share responsibility for enforcing Canada's drug laws. Because of disagreement over their respective jurisdictions, the relationship is strained. This lack of co-operation could impair the ability to disrupt large scale drug trafficking.

1.71 Similar problems, though less dramatic, occur between the RCMP and other departments in the enforcement of other statutes. The government has known about these problems for a long time. I noted them myself in my 1981 Report. They were mentioned in a Cabinet-directed study in 1984, and in other studies going back to 1975. I make recommendations this year in Chapter 26 for improving co-operation. Yet some of these problems may now be too deeply rooted for the RCMP and departments to solve by themselves; action by Cabinet may be warranted.

1.72 A second example is in our audit of the management of the Immigration Program (Chapter 12). The program is complex and dispersed, involving seven federal departments and agencies. Managing the program requires close co-ordination of activities by these organizations, under the leadership of Employment and Immigration Canada. We found that certain required structures and practices are inadequate or non-existent. These include interdepartmental agreements, which we found to be generally incomplete or absent, and co-ordinating committees, of which only few exist -- and one has met only once, in 1986 - the year it was set up.

Few things have disturbed me more than jurisdictional conflicts between federal departments.

1.73 We have concluded that to fulfil its legislative mandate, Employment and Immigration needs to strengthen its co-ordination role.

A Sense of Urgency

1.74 In Chapter 1 of my 1981 Report, I noted that progress in improving management control and accountability was often disappointingly slow. I questioned whether public service managers had demonstrated a sense of urgency in addressing known deficiencies.

1.75 Again in 1983, and most recently in 1988, I called Parliament's attention to this lack of a sense of urgency. This year, with the perspective of ten years as Auditor General, I again raise this matter.

1.76 Quite simply, I remain concerned about the insufficient priority and urgency attached to correcting identified deficiencies.

Insufficient priority and urgency is attached to correcting identified deficiencies.

1.77 In the early years of my term, examples of prompt and effective action were few in my annual Reports; now they are more numerous. This year's follow-up of previous audits (Chapter 4) reports instances of satisfactory corrective action. The well-performing organizations described in my 1988 Report provide notable cases where management acted decisively to improve operations and administration. I will return later to a further example of responsiveness identified in the Department of National Defence.

1.78 If anything, these good examples strengthen my resolve to highlight inordinate delays in action. They demonstrate what managers with a sense of urgency can accomplish. Despite some improvement many situations remain that need urgent attention.

Security of Information

1.79 The government has three important assets -- people, money and information. Information assets, including everything from tax returns to data on the location of toxic waste storage sites, are the lifeblood of the government.

1.80 The government gives considerable attention to managing people and money. The same does not hold true for information.

1.81 This year I examined the state of security of the government's information assets and related technology (Chapter 9). In 1977, and again in 1983, my Office had reported a lack of due regard for the stewardship and protection of this most important asset. In 1977, my Office reported a lack of adequate protection to ensure continuity of operations in the event of major disruptions. In 1983, I reported that little beyond off-site storage of data was being done to ensure post-disaster continuity of service.

1.82 In this year's audit, I expected to find that the government had now ensured that its computers could continue with vital data processing in emergencies. But little has been done. I can only conclude that there has been negligence, to the point where we cannot give assurance that the government could continue to meet its obligations in the event of a disaster affecting its computer facilities.

Most programs of government could not be delivered today without the support of the government's computers.

1.83 To understand the sense of alarm and urgency that I attach to this issue, one must realize the impact of technology on government. Most, if not all, programs of government could not be delivered today without the support of the government's computers. And yet, unlike people and money, this vital asset is not adequately supported by political interest, management attention, lines of accountability, or leadership from the central agencies. In an information age, that's like running a railroad without signals or a busy airport without air traffic controls.

Canada Student Loans

1.84 The Canada Student Loans Program of the Department of the Secretary of State is a case of inaction. We audited the Program in 1977, 1981 and 1984, and followed up our observations in 1986 and 1988. We focussed on internal controls of its existing computer system and the implementation of a new computer system. Time and again we have identified and reported serious deficiencies.

1.85 The development of the computer system was an example of problems we find all too often in such projects. After some seven years and $5 million in expenditures, development was stopped in 1987. The reason was that the system was unreliable and inefficient and would require another $1.5 million to complete, with no guarantee of success. So the Department still uses a system that dates back to 1968 -- a system that no longer meets user needs.

1.86 One in six students defaults on his or her loan. Thirty percent of students who default cannot be located. Little is done to enforce the requirements for students to comply with the rules of the Program. The Department has not been aggressive, nor has it required financial institutions to be aggressive in recovering these amounts.

Problems in the Canada Student Loans program have long been recognized. Why have they not been resolved?

1.87 As of 31 March 1990, accounts receivable resulting from student loans, including $140 million in interest, was more than $700 million. Chapter 29 notes that the United States has a successful recovery program called the Refund Offset Program, which is administered by the Internal Revenue Service (paragraph 29.105).

1.88 My reason for highlighting this example is that much of what we report is not new. The problems have long been recognized in a series of internal and external studies, and in my own audits. Why, then, have they not been resolved?

Department of Transport

1.89 One of the challenges of the 1990s will be to pay for the maintenance of an aging transportation infrastructure. The Department of Transport is faced with operating, maintaining, restoring and, for some hub airports, expanding its airports infrastructure. There is a clear link between the availability of capital funding to meet the infrastructure needs identified by the Department, and ensuring that airports capacity will be in place when and where it is required -- a condition that in large part will determine the levels of service provided to the travelling public. Today, there is no plan for a $1.4 billion shortfall in the funding for capital requirements over the next five years. I am concerned because the Department lacks the policy framework, adequate information on the demand for services, and important tools, such as adequate cost information, that could help address this shortfall.

1.90 The Department lacks a plan and other information I believe is essential to assessing the relative needs of the competing modes of transportation funded by the Department. For example, I comment on the inadequacy of the information provided to decision makers at the departmental level and at Treasury Board, in support of the need for the mid-life modernization of a Canadian Coast Guard vessel, the CCGS Louis S. St. Laurent. The need to modernize this 20-year-old ship was not adequately justified by defined levels of service for icebreaking. I am concerned by the apparent lack of urgency in developing standards for levels of service. This example, cited in an audit note (paragraph 3.125), reminds me of the Bonaventure aircraft carrier debacle of the 1960s. My Reports in 1978, 1983 and 1989 all identified the need to define levels of service for the icebreaking program and to determine the size of the fleet of ice-capable vessels needed to provide these levels of service.

1.91 In another audit note (paragraph 3.143) I comment on the inadequate safeguarding of a Crown asset - the Terminal 1 Parking Garage at Pearson Airport. Although serious salt corrosion problems were noted by the Department over eight years ago, there is still no plan to restore the structure. This has contributed to an increase in the projected cost of restoration by up to $38 million, and there is no guarantee that the structure will remain safe without major repairs. I am puzzled, because in one case I see a project that was funded in spite of not being adequately justified and, in another case, a project which wasn't funded that appeared justifiable.

1.92 The Department's move to deregulate air transportation has significantly changed the rules for airlines. It has also profoundly changed the conditions under which the Department operates. The Department of Transport is unique in that it must operate in this fast-paced highly commercial airports environment, but in accordance with bureaucratic rules. I am encouraged to see that the Department hopes to implement a more commercial approach. I sense that the will to change is present. Absent are many of the financial tools to develop a more commercial approach. Moreover, I am disappointed that some initiatives the Department has been talking about for years have yet to be put in place. We note, for example, an apparent lack of a sense of urgency to improve the availability of timely and adequate cost information in order to satisfy its cost recovery objectives.

Some initiatives the Department of Transport has been talking about for years have yet to be put in place.

Safeguarding and Collecting of Non-Tax Revenues and Receivables

1.93 My Office has a long-standing interest in systems and practices for safeguarding assets and for providing an effective check on the collection of revenues. Following our major studies of financial management and control in 1975 and 1987, I reported in 1989 that central agencies and departments had initiated action on our findings. I also advised vigilance in applying internal controls. This message bears repeating.

1.94 Several chapters this year highlight continuing problems. However, I am particularly disturbed by some of our findings in the area of non-tax revenues and receivables.

1.95 An audit note (paragraph 3.61) in Chapter 3 reports a need to improve control over monies advanced to employees of the Department of External Affairs. Travel and other advances totalled $25 million at 31 March 1990. We found cases of substantial amounts outstanding for long periods of time, apparently due to ineffective follow-up and poor accounting records. I cannot help being concerned that such a situation occurred, but I am encouraged by the Department's promise of corrective action.

1.96 There are other examples pointing to a need for improved financial management and control of non-tax revenues and receivables:

- Although there have been improvements in cost recovery, a higher proportion of the costs of issuing immigration visas could be recovered. This could generate additional revenue of up to $20 million (Chapter 13).
- Consumer and Corporate Affairs could do a better job in documenting its costs and how it arrives at rates charged to users (Chapter 16).
- Airports could add up to $4.5 million to parking revenues, by simple improvements in control (Chapter 30).

National Defence - An Example of Responsiveness

1.97 Over the last ten years, I have devoted substantial audit effort to the Department of National Defence.

1.98 Five major chapters on DND have been produced since 1982, and this year my Report contains four additional chapters that discuss different aspects of the management of human resources.

1.99 Over the last eight years, we have made more than 60 recommendations intended to improve aspects of DND's management processes. The Public Accounts Committee has made eight additional recommendations. Our follow-up of action on these recommendations has indicated a high degree of responsiveness by DND, and an aggressive effort to correct shortcomings.

1.100 In the area of Materiel Support, I am very pleased to note the planned upgrade of the Canadian Forces Supply System. The supply system is a critical element of wartime capability and of the peacetime management of DND's extensive inventory, which is valued at about $10 billion. Improvements have also been made in the management of repairable items, ammunition and medical supplies, and steps have been taken to eliminate excess inventories.

The Department of National Defence has responded to our recommendations with an aggressive effort to correct shortcomings.

1.101 I have noticed a progressive improvement in life cycle costing of major Crown projects. This is important if DND is to avoid unanticipated requirements and inappropriate trade-offs for items such as spare parts, training support and combat supplies.

1.102 The Department has also implemented important organizational changes to respond to needs we have identified in such areas as force structure planning, co-ordinating audit, evaluation and military review activities, and pulling together manning and establishment activities.

1.103 This year's chapters on human resource management in DND identify many areas where improvements can be made in the economy and efficiency of operations, and in the production of more significant and equitable programs in these areas. DND has agreed with our assessments and is already taking action to improve day-to-day management.

1.104 By their very nature, the changes will need time to have their full impact. What is notable about the Department is not that it has solved all the problems we have noted, but that it has responded to our recommendations systematically and diligently.

The need for a force structure for the longer term

1.105 There is one requirement, however, that has concerned me since 1984. This has to do with the need for a force structure for the longer term, as a stable basis for decision making. Key factors of defence capacity, including equipment and human resources, operate on a 20- to 35-year life cycle, and the advantages of a stable basis for managing these are clear.

1.106 Over the past few years, the Department has developed a Canadian Forces Development Plan to fulfill current commitments. This structure must be changed every time commitments or budgets change. The dramatic changes now taking place in Eastern Europe are causing another round of force development planning, at a time of increasing fiscal restraint.

1.107 There will always be a requirement for force development to meet current commitments. However, there is a recognition in DND that what is needed is a force structure designed to provide longer-term stability against which day-to-day decisions can be made.

1.108 To establish this, however, guidance will be required from a high level, starting with first principles -- the fundamentals that have produced success in combat -- to ensure that the structure and processes of the Department and the Canadian Armed Forces are compatible with a longer-term approach. This guidance should recognize the unique characteristics of combat on land, in air and at sea. It should also establish the essential aspects of leadership and the military ethos, and provide a mechanism to ensure that these critical aspects are preserved over time. It should not be unnecessarily constrained by past policy choices.

1.109 DND is now at an important crossroads in its history. A major defence policy review is in progress, and Department-wide studies are being carried out to make administration as efficient as possible. It is important that planning for the future of this important national resource provides, to the extent possible, a stable basis for decision-making.

Action Needs Commitment

1.110 Our auditors who follow up previous audit reports hear many explanations for slow action: a shortage of qualified personnel, unwillingness of central agencies to authorize funds, or pressure from outside groups to maintain the status quo. Urgent operational priorities often arise, and dealing with long-term improvements is postponed. These can be legitimate reasons for delays in action. Many times they are merely excuses.

1.111 I think that sometimes the answer is much simpler: there just isn't a commitment to solve the problem. I believe that my Office has an important role in continuing to press for the resolution of long-standing deficiencies. They are costly and often result in low staff morale. We intend to continue to follow up significant outstanding issues raised in our reports.

Unresolved deficiencies are costly and often result in low morale.

Management of People and Public Service Reform

People are the Key to Performance

1.112 In recent reports I have emphasized the need for a fundamental restructuring of Canada's public service. Our government-wide audits of human resource management practices, the 1983 study on Constraints to Productive Management in the Public Service, the audits of Job Classification (1984), the Public Service Commission (1985), the Management Category (1987 and 1989) and the Incentive Award Plan (1989), and the Study of Well-Performing Organizations (1988) all have pointed to the need for wide-ranging changes if Canada's public service is to remain among the best in the world.

1.113 Chapter 1 of my Report last year focussed on four elements without which the government will not achieve value for money. I added, at the close of the chapter, the paramount importance of people.

1.114 The point is simple but undeniable. People are the most important resource in the pursuit and the achievement of better efficiency and results.

1.115 I observed that, some progress notwithstanding, successive governments had only been fiddling at the margins while there was an urgent need for a fundamental reform of the legislative and administrative framework governing the management of people. There was a need to bring a creative and more entrepreneurial approach to the management of Canada's public servants.

1.116 In December 1989 the government announced the creation of Public Service 2000 to address, among other things, some of the most pressing issues regarding the management of human resources. Draft legislation was promised by the end of the current session of Parliament.

1.117 Since my last Report, the Public Accounts Committee has devoted six hearings to the subject of management of people in the federal public service. At those hearings it became evident that, notwithstanding some concerns about the process of Public Service 2000, there was a strong consensus -- shared by the committee and witnesses -- that legislative and administrative reforms were urgently needed.

1.118 There was agreement on the need to review the 23-year-old legislation and to streamline certain processes, such as classification, staffing and the termination of employees with poor performance. However, perceptions of the problems and of available solutions differed considerably.

1.119 The testimony supported our view that there is a need to eliminate unreasonable constraints, giving more authority to departments and their front-line managers while ensuring proper accountability for their performance. This year's Report, once again, is full of examples which prove that fundamental change is needed in the way we manage people. We need to manage better. We can if Parliament provides legislative change.

Job classification: an urgent need for reform

1.120 Our second follow-up to our 1984 audit of the management of job classification shows that although some progress has been achieved, the system is still seen as complex, costly, time-consuming, and insufficiently responsive. Simplification is required.

Needed: appropriate training

1.121 This year we report serious deficiencies in the training provided to employees in many departments and agencies. For example, our audit of the control and enforcement activities relating to immigration (Chapter 15) shows that many Customs officers charged with the important task of screening people who enter Canada are inadequately trained.

1.122 We found similar problems in the management of the Immigration Program (Chapter 12), in its foreign delivery (Chapter 13) and in the handling of refugees (Chapter 14). In the latter chapter we note that many case officers with the responsibility of representing the Minister at refugee hearings receive little or no training. Many have limited experience, yet their jobs demand unique and highly specialized knowledge and skills.

Fundamental change is needed in the way we manage people.

1.123 Our audit of EDP security shows that many departments do not offer training in computer security despite the substantial increase in the use of microcomputers.

1.124 The lack of training provided, and the extensive use some departments make of part-time, term or casual employees with little or no experience, makes me wonder about the quality of some of the services provided to the taxpayer -- and at what cost.

1.125 In our chapters on RCMP Federal Enforcement, Transport and Consumer and Corporate Affairs, we express concern that these organizations do not have people in some areas with the appropriate experience and expertise to meet the changing requirements of the work.

1.126 Finally, in our study of efficiency, we report that there is a need to develop skills in human resource management, as well as people with the technical skills necessary to assist managers in assessing and improving operational efficiency and decision making.

Needed: recognition and rewards

1.127 Our study of efficiency shows that the public service will continue to lose significant opportunities to improve employee performance unless it can establish a management framework that encourages all employees to work to their potential and at the highest level of commitment. More important, such a framework cannot exist until a substantial change in attitude takes place.

1.128 It seems that we still have a long way to go before employees are recognized as assets to be valued and developed and service to the public becomes a value intrinsic to the public service.

Values, Service and Performance

1.129 During the last decade, my Office has conducted three major studies exploring the less tangible elements of management in the public service. In 1983 we examined the constraints under which managers are expected to operate and still be productive. We discussed the impact of political priorities, of numerous administrative regulations, and of the lack of incentives. In 1988 we turned our attention to organizations considered to perform well. We found their common attributes to be an emphasis on people, participative leadership, innovative work styles and a strong orientation toward their clients.

We have a long way to go before employees are recognized as assets to be valued and developed.

1.130 The attention given to these studies -- both in Canada and abroad -- has been gratifying. They have been discussed at many international workshops and conferences, and groups eager to learn more about our approach have visited us. Replications of our study on well-performing organizations are planned or under way in six countries.

1.131 This year, in Chapter 7, we offer the results of a study on values, service and performance in the public service.

1.132 Traditional management thinking focusses on systems, controls, structures and rules. It assumes that the more systematic and predictable an organization can be, the better it will perform.

1.133 Our work shows that improving an organization's performance is a function not only of systems and structures but also of people and values. Values influence which tasks people will do with care, which they will do superficially, and which they will try to avoid. We found that most managers have given little attention to the important role that values play in service and performance.

1.134 Systems, controls, structures and rules should work well when an organization's activities are stable, predictable and repetitive. However, people and work environments are evolving. Technology brings rapid change in the way work is done. Clients expect greater variety and responsiveness of service. Workers are no longer willing to follow rules blindly; they want to know the meaning of their work. For all these reasons, the values held by managers and workers are of increasing importance in the workplace.

1.135 Our study began with a question: what should we expect of a public service? We concluded that a public service should:

- use resources cost-effectively;
- be responsive to the public;
- support government priorities; and
- be satisfying to the public servants.

1.136 We found organizations faced with value dilemmas -- when one value clashes with another. A common value dilemma in the public service is the conflict between being responsive to the public and complying with government rules. Flexibility and individualized service are critical if the public service is to be responsive. Both can violate another inherent value of the public service -- equal treatment of all citizens.

1.137 The organizations we studied reflected the degree to which values can affect performance. Unresolved value dilemmas can lead to lacklustre performance. Conversely, the ability of an organization to resolve value dilemmas can lead to improved performance, as shown by several examples in the chapter.

The values held by managers and workers are of increasing importance in the workplace.

1.138 The successful resolutions of value dilemmas that we observed were built on the basic values most of us share: the desire to make a contribution and to have it recognized.

1.139 As in our two earlier studies, our aim this time was to explore the nature of values, service and performance and to encourage productive discussion and experimentation. Effective management and better performance in the future will depend on an appropriate balance between personal values and bureaucratic processes and structures.

Public Service 2000

1.140 Public Service 2000 recently made public the recommendations of its various task forces. Although it is too early to comment specifically on approximately 300 recommendations, I am pleased to see that many of the issues identified in our audits and studies over the years have been addressed.

1.141 I am particularly delighted to note that the factors identified in our 1983 study on constraints to productive management in the public service and in our 1988 study of well-performing organizations have been considered in the proposed reform of the public service.

1.142 Given the nature of the challenges ahead, I am asking my Office to review its audit methodology to address such questions as these:

> How will we ensure that judgment and innovation are recognized while also ensuring that appropriate controls are in place and are complied with?
>
> How will we report significant deficiencies while still encouraging the impetus toward more efficient, effective and responsive service to the taxpayer?
>
> How will we ensure that adequate accountability mechanisms are in place to measure and report achievement against resources consumed?

If the reform process were to fail, the big loser would be the taxpayer.

1.143 The government has announced that the recommendations of Public Service 2000 will be subject to wide consultation.

1.144 As the Chairman of the Public Accounts Committee has said:

> "Public Service 2000 has raised major expectations for reaching reform in the management of people in the Public Service...What a great shame it would be if all of these expectations were not realized. Morale, one of the major reasons for reform, would certainly suffer and this has come through loud and clear in our hearings."

1.145 I can only add that if the reform process were to fail, the big loser would be the taxpayer. I urge all members of Parliament to support Public Service 2000 and be part of the reform process. In every endeavour, it's the people who make the difference.

The Pursuit of Efficiency

1.146 The first government-wide assessment of the extent to which due regard was being given to efficiency was reported in 1978, as our Study of Procedures in Cost Effectiveness. Since then, every year, we have continued to address efficiency in value-for-money reports of government departments. Over this period the government has increasingly been faced with the need to restrain expenditures while continuing to maintain or increase levels of service to the public. This has raised the priority attached to managing with due regard to efficiency as one way to help ensure that the highest quality services are provided at the lowest possible cost, while meeting the government's legislative obligations. Last year I outlined the main elements of our study of efficiency in government. This year Chapter 8 attempts to answer questions fundamental to the government's ability to manage with due regard to efficiency.

1.147 Responsibility for managing with due regard to efficiency in the government is shared between central agencies and departments. Central agencies are responsible for establishing the framework for government operations, allocating resources, providing functional guidance and assessing government-wide opportunities to provide better service. Departments are responsible for delivering specific government programs and services with due regard to efficiency.

1.148 For central agencies to fulfil their role in providing a framework for government operations, to provide functional guidance to departments, to participate in the reorganization of government and the allocation of resources requires efficiency-related information not generally available in most departmental planning documents. Our study found that many departments have improved efficiency but information on these improvements is not widely disseminated within departments or throughout the government as a whole.

1.149 Virtually all government programs use information technology, and computer workstations are used by at least a third of government employees. Our review of government computer centres indicated that they were operating at costs comparable to those of similar centres outside the federal government. However, government computer centres tend to operate in isolation, as "islands of technology" with separate management, software and facilities. This arrangement does not take advantage of opportunities to consolidate various computer operations or share expertise. Sharing of government facilities, data bases, expertise and telecommunication networks, and rationalizing electronic mail into a homogeneous network, are opportunities open to the government to improve efficiency.

1.150 We noted that most departments do not have a well-organized approach to identifying and implementing efficiency improvements. Their approaches are more a matter of implementing ad hoc improvements motivated by a need to respond to budget cutbacks, or of relying on the initiative of individual managers.

1.151 I am concerned that most departments still are not using cost and performance data to assess and improve on the efficiency of their operations. There is abundant cost information on government activities, but still not enough on the outputs of these activities. With information being provided for only one side of the efficiency equation, it is not possible for the government to assess how well it is doing at improving efficiency. This is a point we raised more than ten years ago, and repeated in our 1987 Financial Management and Control Study.

1.152 Our review suggests that opportunities to significantly improve employee performance will continue to be missed, unless the public service can instill management values and attitudes designed to encourage employees to work to their potential. When efficiency improvements are initiated the employees need to be recognized. This could encourage others to improve their own performance. I believe that support for good performance is essential to ensuring that all managers and employees understand that efficiency is everyone's responsibility.

When efficiency improvements are initiated the employees need to be recognized.

1.153 The increasing demand for government services dictates that imaginative and productive employees, managing with due regard for efficiency, be a standard feature in the public service. Although progress has been made, much more needs to be done.

1.154 Here, then, are just some opportunities for improvements in efficiency identified in this and previous annual Reports:

- In 1989 we reported that telecommunication costs in the federal government could be reduced by $30 million to $45 million annually, by creating larger networks of data telecommunications to take advantage of existing tariff structures, with more efficient use of circuits, and by integrating voice and data communication services in departments.
- In this year's Chapter 13, Immigration-Foreign Delivery, we report that there are a number of opportunities to improve the efficiency of immigration operations at missions abroad, through measures such as automating the processing of applications, reducing paper burden in the selection process, and increasing the use of locally engaged program staff.
- In Chapter 24, Department of National Revenue-Enforcing the Income Tax Act, we point out that the Department could reduce time-consuming manual operations by encouraging institutions to submit information on magnetic media.
- In Chapter 24, Department of National Revenue, Chapter 28, Department of Secretary of State-Citizenship, and Chapter 26, RCMP-Federal Law Enforcement, we note that reporting efficiency-related performance data could indicate opportunities for improving efficiency.

1.155 The Office of the Auditor General will continue to provide information on the management of efficiency in the years ahead.

Serving Parliament Through Audit

Evolution of Comprehensive Auditing

1.156 In 1977 Parliament approved a new Auditor General Act, which broadened the Office's mandate to include reporting on matters of economy, efficiency and the reasonableness of procedures for measuring and reporting effectiveness. These changes led to the development of comprehensive auditing. Previously our audits had focussed primarily on compliance with legislative authorities, and on financial controls. Earlier Auditors General had reported instances of lack of due regard for economy and efficiency in the expenditure of public funds, but largely in the course of commenting on non-productive payments identified by their audit examinations.

1.157 The first comprehensive audits of government departments and agencies were reported in the 1978 Report; up to twelve have been reported each year since then.

1.158 As with any innovative approach, the first years were experimental. These early comprehensive audits focussed on departmental systems and procedures, and reported on the adequacy of financial controls, the exercise of due regard for economy and efficiency and whether there were procedures in place to measure the effectiveness of programs. These audits generated many recommendations that led to improved management practices and controls in departments and agencies. This approach was particularly useful then because the government's systems, practices and controls were still at early stages of development.

1.159 As my term began I recognized that the environment in government was changing. There were new approaches to management and a series of significant management initiatives. It was time to review how comprehensive audit was evolving, and I called for such a study. As a result we made some adjustments to our approach, so that comprehensive auditing would continue to evolve in a direction compatible with the changing management philosophy of the government.

1.160 An important development was a shift in our emphasis, from a systems-based approach to one that took into account the way programs were being delivered and, where anticipated results were not being achieved, the reasons why. This approach required my auditors to better understand how programs operated and how the interaction of people, resources and technology affected program results. In my view these changes enhanced my Office's ability to focus scarce resources on key result areas and to make more useful recommendations.

1.161 Another important development in our program-based approach to auditing is our review of individual programs that cross departmental lines, with shared responsibilities. We provide a more complete picture of a specific program such as Immigration, reported this year in four chapters.

1.162 These changes were not an abandonment of the systems-based approach but rather an enhancement since, in many cases, the underlying cause of poor results is a system deficiency. Our reports promote accountability by the government to Parliament, in part by generating pressure to correct identified deficiencies in government practices and operations. It is my view that our audits now better serve the House of Commons in its role of scrutinizing government operations and holding the government to account.

1.163 The methodology required for comprehensive audit uses techniques from the fields of social sciences, management consulting, management sciences and engineering, and merges them into the discipline of auditing. I have made the development of our people a major object of focus to broaden the skills of the audit staff.

Our audits now better serve the House of Commons in its scrutiny of government operations and in holding the government to account.

1.164 During my term, significant changes in the approach to attest audits were made, thereby improving our efficiency. Also, computer-based auditing has evolved at a rapid pace, to a point where we are now considered leaders in the field.

1.165 The methodology for comprehensive auditing has gained wide support and increasing acceptance. In Canada, seven provinces have enacted legislation enabling them to do value-for-money audits. The Canadian Comprehensive Auditing Foundation enjoys the support of the accounting and consulting professions in conducting research in this field. The Canadian Institute of Chartered Accountants has recently developed standards for value-for-money auditing, indicating a broad acceptance of the concept and its application. There are parallel developments overseas, with my Office making important contributions to the international development of comprehensive auditing.

1.166 Twelve years is a comparatively short period in the evolution of a professional auditing practice, and even shorter in the history of parliamentary accountability. I am sure that comprehensive auditing will continue to develop and, with it, more effective accountability.

Parliamentary Audits

1.167 In last year's Report I noted that I had proposed value-for-money audits of the administration of the House of Commons, the Senate and the Library of Parliament.

1.168 I am pleased to report that all three proposals have been accepted. Much of the Senate audit is complete. Our audit findings will soon be conveyed to the Senate Committee on Internal Economy, Budgets and Administration. Work on the House of Commons audit has recently begun, with a final report to the Speaker and Board of Internal Economy planned for the latter half of 1991. The Library of Parliament audit has also recently commenced. I expect that the audit report will be provided to the Speakers of the House of Commons and the Senate by mid-1991. Although the three audits will not be included in my annual Report, it has been agreed that the reports will be made public by the House of Commons and the Senate.

1.169 I am pleased that parliamentarians have agreed to these audits. They have shown their commitment to the ideal of responsible parliamentary administration.

Periodic Reporting

1.170 A main goal of our audits is to be useful to the Public Accounts Committee in its review of government spending. Early in my term, I recognized that it would be much more efficient and productive to report on comprehensive audits as they were completed. Public Accounts Committees have expressed the desire to deal with our findings and recommendations while they are current. Furthermore, my Office's planning for work would benefit. Members from all parties have supported completion-date reporting.

1.171 During my term there have been three attempts by private members to have the Auditor General Act amended, to permit reports on comprehensive audits as they are completed. This has not yet been accomplished and, in my view, it is unfortunate I again urge that this matter be given early consideration, especially since my Office is increasingly called upon to assist a growing number of parliamentary committees in addition to the Public Accounts Committee.

Ministerial Travel - Access to Information Unresolved

1.172 The question of my access to information on ministers' travel expenditures remains unresolved. In my 1989 Report to the House of Commons, I reported that I had been denied access to information on ministers' expenditures for travel on public business. Specifically, I was denied information to support the use of VIP fleet aircraft by ministers, and financial documentation of their travel expense claims. I sought this information to be able to confirm that the charges were appropriate and the monies spent for government business. Concerning travel expenses, I was informed that ministers' claims for travel are based on an honour system. Receipts and other supporting documentation are not required. As I stated last year, in my opinion such an honour system does not constitute proper accountability for public funds. No provincial cabinet has such a system.

It would be more efficient and productive to report on comprehensive audits upon completion.

1.173 In response to my Report, the President of Treasury Board indicated that after April 1990 he would table quarterly reports on ministers' travel expenses and a monthly report on ministers' use of the VIP Fleet. No reports had been issued up to the date of writing this Report.

1.174 Although it would be a constructive step to provide additional summary information, the central principle at issue -- my Office's unimpeded access to information needed to audit ministers' travel expenditures -- remains unresolved.

1.175 My report of this denial of access was made pursuant to the Auditor General Act and in agreement with the Supreme Court's ruling that my sole recourse in such an event was to the House of Commons. The Chief Justice of the Supreme Court believed that the adequacy of reporting to Parliament any denial of access to information should not be "underestimated" as a remedy. He stated that such a report "has an important role to play in strengthening Parliament's control over the executive with respect to financial matters."

Members of the House of Commons should, in my view, be concerned that their auditor has been blocked from obtaining legitimate audit information.

1.176 I have reported as directed by the Supreme Court; the next move is Parliament's. The government's denial of access to information on ministerial travel has been reviewed by the Public Accounts Committee. At the time of this writing, the Public Accounts Committee had not yet issued a report. In my view, members of the House of Commons, and particularly members of the Public Accounts Committee, should be concerned that their auditor has been blocked from obtaining legitimate audit information. I asked for members' assistance last year and I am asking again. I need your help on this important principle.

Conclusion

1.177 During the past decade, Parliament's control over the public purse has been strengthened. In these times of restraint, the opportunity now exists to place a greater emphasis on the chain of accountability, from Parliament through the government to all levels at which managerial responsibility is exercised.

1.178 There is a pressing need for setting priorities in government with a greater focus on economy, efficiency and effectiveness. There should and can be a greater sense of urgency demonstrated in correcting identified deficiencies and strengthening management practices. Remedial action has been disappointingly slow.

1.179 The machinery of government becomes ever more complex. Demand continues for new and genuinely important programs. They increasingly cost more to deliver. And all the while, the enormous burden of Canada's growing national debt ties the government's hands. In this complex situation, creative leadership is vital.

1.180 The right decisions, though at times difficult, must be made to ensure that the Canadian ship is steered toward a stable economy while respecting the rights and satisfying the needs of Canadians.

1.181 The challenge to the private sector is to steer its ship conscientiously and profitably on the sea of social and economic change. The challenge to government, on the other hand, is to manage the sea itself.

1.182 Politically these are difficult times, but there remains a climate of hope and expectation among taxpayers that the funds entrusted to government will nonetheless be spent economically, efficiently and effectively.

1.183 Ordinary Canadians need this assurance if they are to have continued confidence in the public institutions of our nation. That's why accountability matters. That is why the open scrutiny of the accounts and processes of all who spend public dollars is essential. Parliament must be a strong link in this chain of accountability and Canadians must have respect for and confidence in their federal institutions.

1.184 An important element in the accountability process is the committee to which my annual Report is referred -- the Standing Committee on Public Accounts. My Office depends on a vibrant and energetic committee to pursue the important issues we report. Over the 112-year relationship with this Committee, the Auditor General has at times endured periods of remarkable disinterest, but often has enjoyed periods of co-operative support. Fortunately for me, the latter has been generally the case. However, in recent times, I sense that an element of partisan interest may have crept into the activities of the Committee.

1.185 I hope that for the balance of this Parliament, and in the future, all members of the Public Accounts Committee will focus on their traditional roles as objective and non-partisan watchdogs of the public purse. Taxpayers are rightly upset about waste and extravagance, and they deserve a well-managed government. The Public Accounts Committee has great potential to contribute toward this aim. I encourage its members to exploit that potential vigorously.

The Call to Public Service

1.186 I often recount how, before coming to Ottawa from Vancouver in 1981, I knew only two federal public servants - our postman and a local customs official. Needless to say, in the last ten years I've met and come to know many more, from the Clerk of the Privy Council to the fish inspector in Tignish, Prince Edward Island.

1.187 I have had the pleasure of associating with parliamentarians of all parties, from all parts of the country. In my Office it has been a joy to work with a team of unequalled professionals -- some of the best and the brightest anywhere. From all of them, I've learned a great deal about the meaning of public service. They came to public service, as I did, for personal reasons. Most of us, if not all, share a common purpose: to contribute to the governance of our country. This is an ideal unfortunately ridiculed too often by those who do not stop to think about the value of public service -- or about what this country would be like without committed public servants. We seem now, in this country and elsewhere, to find our heroes in major corporations or on the playing fields.

1.188 It may be a faint hope, but it is my hope that in the future we will honour not only those who best the competition, but also those who better serve the country.

1.189 I came to Ottawa because I had been intrigued by my predecessor's innovative ideas about comprehensive auditing. I also like constructive change, and thought I could contribute to the advancement of accountability, perhaps implanting the notion that public servants should spend other peoples' money as carefully as they would their own. I was persuaded to enter public service by the example of two people on the selection panel who interviewed me -- one a cabinet minister, the other a deputy minister. I was, and still am, impressed with their dedication to Canada.

1.190 A short while ago, a parliamentarian leaving party politics said "I believe that the highest calling in life, next to the Ministry of God, is public office". To this I add "and public service".

1.191 I shall leave my post at the end of next March believing that the Office of the Auditor General has made a positive contribution to Parliament and that I have done my best. I hope many will agree.

2

Observations by the Auditor General on the Financial Statements of the Government of Canada

Observations by the Auditor General on the Financial Statements of the Government of Canada

Main Points

2.1 The audited financial statements of the Government of Canada are included in Section 2 of Volume I of the Public Accounts. These financial statements show, in summary, the government's:

- financial position - the government's cash balances and investments, together with amounts owing to and by the government at the end of the year;
- results of operations - what the government's revenues and expenditures for the year have been;
- changes in financial position - the government's cash requirements for operating and investing activities, and how these activities were financed; and,
- financial requirements - the extent to which cash going out from the government exceeded the cash coming in, and the resulting net new borrowing.

2.2 1990 is the first year an Auditor General has given an opinion without reservations on the government's financial statements since enactment of the Auditor General Act. Audit opinions in past years contained significant reservations because inappropriate accounting policies, which caused the financial statements to be misleading, had been used.

2.3 This year, the Minister of Finance and the President of the Treasury Board strengthened the government's accounting policies. As a result, I am pleased to report that the 1990 financial statements present information fairly in accordance with these policies -- the statements reliably inform Members of Parliament and others who read them.

2.4 The evolution of government accounting and reporting has been swift in the past decade. I recognize that it takes time for governments to adjust. Nevertheless, there are two matters that I believe need attention in future years.

2.5 First, the government should continue to study and implement, where applicable, recommendations of the Canadian Institute of Chartered Accountants' Public Sector Accounting and Auditing Committee.

2.6 Second, the government should present its financial statements in a comprehensive but concise annual financial report.

Table of Contents

Paragraph

Strengthened Accounting Policies -- A Significant Accomplishment by the Government in 1990 2.7

As a result, the government's financial statements now present information fairly in accordance with these policies, and my audit opinion on the statements is now without reservation. (2.7)

Two Matters that Need Attention in Future Years 2.15

Background Information on My Audit Opinion 2.40

Every year, the government enters into millions of transactions involving hundreds of billions of dollars. Errors do creep in, and some may go undetected. When I audit the government's statements, I seek a high level of assurance that they do not contain errors whose total effect would be material enough to mislead the reader (2.40)

- **Mandate for My Audit of the Government's Financial Statements** 2.41
- **An Overview of My Audit Opinion** 2.42
- **Materiality and Audit Assurance** 2.51
- **Auditing for Compliance with Parliamentary Authorities** 2.61

Observations by the Auditor General on the Financial Statements of the Government of Canada

Strengthened Accounting Policies -- A Significant Accomplishment by the Government in 1990

As a result, the government's financial statements now present information fairly in accordance with these policies, and my audit opinion on the statements is now without reservation.

2.7 The financial statements of the government for the year ended 31 March 1990, and my audit opinion on them, are in Section 2 of Volume I of the Public Accounts of Canada. In this chapter, I present additional information and comments on the government's financial statements and my audit opinion.

During the year, the Minister of Finance and the President of the Treasury Board strengthened the government's accounting policies.

2.8 The government's financial statements convey a highly summarized financial overview of its various activities. The financial statements, and the information they convey, are outlined next..

Financial Statement	**Information Conveyed**
Statement of Assets and Liabilities	financial position -- the government's cash balances and investments, together with amounts owing to and by the government at the end of the year
Statement of Revenue and Expenditure	results of operations -- what the government's revenues and expenditures for the year have been
Statement of Changes in Financial Position	changes in financial position -- the government's cash requirements for operating and investing activities, and how these activities were financed
Statement of Transactions	financial requirements -- the extent to which cash going out from the government exceeded the cash coming in, and the resulting net new borrowing
Statement of Accumulated Deficit	the net accumulation of annual deficits and surpluses since Confederation together with the effects of changes in accounting policies made in 1990 and applied retroactively

2.9 My audit opinion tells readers about two matters. First, whether the financial statements were prepared according to the government's accounting policies, applied consistently from year to year. Second, whether users of the statements can rely on them to present fairly the government's financial position, results of operations, changes in financial position and financial requirements.

2.10 I am delighted to report that, for the first time since the enactment of the Auditor General Act, the financial statements present fairly, in accordance with the government's accounting policies, the government's financial position, results of operations, changes in financial position and financial requirements. My audit opinion on the government's statements is now without reservation.

2.11 In past years, certain of the accounting policies used by the government in preparing the financial statements were, in my judgment, inappropriate. As a result, the government's statements did not present information fairly -- the statements did not reliably inform Members of Parliament and others who read them. These deficiencies were reported as significant reservations in my audit opinion on the statements in past years.

2.12 In 1989, the accounting policies that I believed were inappropriate resulted in:

- failure to provide an allowance in respect of the risk of loss on debts owed by financially troubled countries;
- failure to include Crown corporations in the reporting entity; and
- failure to record the full liability for the indexing of employee pensions.

2.13 In the current year, the Minister of Finance and the President of the Treasury Board strengthened the government's accounting policies. In particular, they:

- provided an "allowance for general contingencies" in respect of potential debt or debt service relief measures for financially troubled countries under multilateral agreements;
- redefined the reporting entity to specifically include Crown corporations and consolidated the financial statements of appropriation-dependent corporations with the financial statements of the government; and,
- recorded an allowance to provide fully for the indexing of employee pensions.

These changes have been applied retroactively, with restatement of the previous years' deficits and accumulated deficits, for consistency. This accounting treatment complies with guidance provided by the Canadian Institute of Chartered Accountants.

The government should continue to study and implement, where applicable, recommendations of the Canadian Institute of Chartered Accountants' Public Sector Accounting and Auditing Committee.

2.14 These accounting policy changes respond to recommendations in the Public Accounts Committee's Second Report to the House of Commons dated 10 October 1989. In that Report, the Committee requested that the Minister of Finance and the President of the Treasury Board revise the government's accounting policies to overcome concerns expressed by the Auditor General.

Two Matters that Need Attention in Future Years

2.15 In March 1981, the Board of Governors of the Canadian Institute of Chartered Accountants established the Public Sector Accounting and Auditing Committee (PSAAC). The Committee provides a forum for considering the information needs of users, preparers and auditors of government financial statements. It also develops and recommends enhanced accounting principles and disclosure standards for consideration by Canadian governments and their auditors.

2.16 The existence of PSAAC does not alter the responsibility of auditors to exercise independent professional judgment when they examine and report on government financial statements. As pointed out by the Committee in the Introduction to its Accounting and Auditing Recommendations, "no rule of general application can be phrased to suit all circumstances or combination of circumstances that may arise, nor is there any substitute for the exercise of professional judgment in the determination of what constitutes fair presentation or good practice in a particular case".

2.17 Nonetheless, PSAAC can help auditors to better discharge this responsibility by developing a consensus of appropriate financial reporting practices, to which both governments and auditors can refer when assessing fairness. I support PSAAC and recommend that the government and Members of Parliament support its pronouncements.

2.18 As at 31 March 1990, PSAAC had issued five statements on accounting. They are:

Accounting Statement 1 (1983)	requires disclosure of the accounting policies on which government financial statements are based;
Accounting Statement 2 (1984)	identifies five objectives of government financial statements;
Accounting Statement 3 (1986)	sets out 35 general reporting principles and disclosure standards for information in government financial statements;
Accounting Statement 4 (1988)	addresses the principles and criteria for determining which activities should be included in government financial statements, and, if included, how to account for them; and
Accounting Statement 5 (1988)	deals with accounting and reporting of employee pension obligations in government financial statements

2.19 Another project, examining how governments should account for and report transfer payment programs, is nearing completion. In addition, PSAAC has published a research study on the recording and reporting of physical assets.

2.20 This represents a significant and rapid achievement, in less than a decade, in the evolution of generally accepted accounting principles for Canadian governments. Government officials advise that the government of Canada is moving quickly to develop a comprehensive set of accounting policies that are generally consistent with this framework. The officials also advise, however, that it will take time and capital investment in new financial systems to comply fully with certain of PSAAC's recommendations.

2.21 The financial statements of the government of Canada comply with the recommendations in PSAAC Accounting Statements 1 and 2, and with all but two (four in 1989) of the principles and standards recommended in Statement 3.

2.22 During the year, the government made the following changes to its financial statements in response to recommendations in PSAAC Accounting Statement 3:

- published a statement of changes in financial position; and
- accounted for non-tax revenues on the accrual basis.

2.23 The two recommendations in Statement 3 that remain to be implemented require:

- disclosure of the government's acquired physical assets on hand and available for use at the end of the year; and
- a comparison of actual results with those originally forecast by the fiscal plan.

I have not included a reservation in my audit opinion on the government's financial statements because of the failure to implement these last two recommendations. PSAAC does not specify an implementation date and I recognize that the government needs time and new systems to develop appropriate disclosure. However, I believe these recommendations are appropriate, and I would expect the government to implement them at the earliest possible date.

2.24 Accounting Statements 4 and 5 address two of the three accounting policies of the government that I considered inappropriate in prior years. These policies resulted in Crown corporations being excluded from the government's reporting entity and in only partial recording of the liability for indexing of employee pensions.

2.25 As reported in paragraph 2.13, the government revised these two accounting policies this year. Although strengthened, the revised policies do not comply fully with the recommendations in PSAAC's Accounting Statements 4 and 5.

2.26 I am concerned that the new accounting policies on the reporting entity and employee pensions may not have sufficient rigor to prevent distortions of reported results in future years.

2.27 For example, Accounting Statement 4 recommends that enterprise Crown corporations be included in the government reporting entity on what is known as the "modified equity" basis of accounting. This would require enterprise net profits (or losses) to be included in the government's financial statements when earned (or incurred). Thus, the government would not be able to defer recognition of enterprise profits or losses to future years.

2.28 The government's new accounting policy for the reporting entity does not, however, require enterprise Crown corporations to be included in the reporting entity on this basis. Such corporations continue to be accounted for on the "cost" basis. Their net profits (or losses) are only included in the government's financial statements when they are paid over (or reimbursed). Thus, the government is not precluded from deferring recognition of enterprise profits or losses to future years.

2.29 In 1990, the effect on the government's financial statements of accounting for enterprise Crown corporations on the "cost" basis is approximately the same as it would be on the "modified equity" basis. Accordingly, I have not included a reservation on the reporting entity in my audit opinion.

2.30 However, if an enterprise corporation reports significant net profits (or losses) in a future year, which are excluded from the government's reported deficit for that year because of not being paid over (or reimbursed) until later, reported results would be distorted. This would require a reservation to the audit opinion.

The government should present its financial statements in a comprehensive but concise annual financial report.

2.31 In the case of employee pensions, Accounting Statement 5 contains a number of recommendations dealing with how governments should account for and report changes in their pension liabilities from one year to the next. For example, the effects of "estimation adjustments" are to be spread over deficits of future years rather than charged to the deficit of the year in which the adjustments are identified.

2.32 Although the allowance for employee pensions referred to in paragraph 2.13 seems reasonable as at 31 March 1990, the notes to the financial statements do not explain how year-to-year adjustments to the allowance will be reported. If a significant change is identified in one year and is included in its entirety in the deficit of that year rather than spread over deficits of future years, a reservation to the audit opinion would have to be re-introduced.

2.33 I encourage the government to bring its accounting for enterprise Crown corporations, and its accounting for employee pensions, into line with PSAAC recommendations.

2.34 In 1986, the results of the two-year Federal Government Reporting Study (FGRS), undertaken jointly by my Office and the United States General Accounting Office, were published. The purpose of this research project was to identify the financial information about federal governments that users need. In Canada, the results of the study were provided to Members of Parliament, the government and PSAAC for their consideration. Copies of the reports on FGRS are available from my Office.

2.35 One question dealt with was how the government's annual financial statements should be communicated. At present, the financial statements are presented in the Public Accounts of Canada, a three-volume set of documents of massive proportions. The study shows that users find this presentation cumbersome and difficult to work with. Users want a simpler, more focussed approach to presenting the government's overall numbers. And they want some context for the numbers in plain, non-technical language.

2.36 The prevailing view of users is that a comprehensive but concise annual financial report by the federal government would be extremely valuable. They want such a report to provide a broad picture and a more complete understanding of the government's activities and resulting financial position and to serve as a key to the more detailed information the government provides in other financial documents.

2.37 In its Eighth Report of 30 June 1987, the Public Accounts Committee endorsed "the need for a succinct annual financial report for parliamentarians and other users of government financial information".

2.38 Since the publication of FGRS, the government has taken a number of steps to improve the way it communicates summary information to users. For example, it has:

- converted Section 1 of Volume I of the Public Accounts of Canada into a more "user-friendly" and informative financial overview (1987);
- begun publishing two summary documents each quarter, - "The Fiscal Monitor" and "The Economy in Brief" - to help users obtain an overview without getting buried in detail (1988); and
- published a document entitled "Where Your Tax Dollars Go" to summarize and explain federal spending, with a primary focus on who received federal funds (1989).

2.39 I encourage the government to continue improving its presentation of summary information to users. In particular, I would ask that it give serious consideration to presenting its financial statements in a comprehensive but concise annual financial report.

Background Information on My Audit Opinion

It is important to realize that, in giving my opinion on the government's financial statements, I am not guaranteeing the absolute accuracy of the statements.

Every year, the government enters into millions of transactions involving hundreds of billions of dollars. Errors do creep in, and some may go undetected. When I audit the government's statements, I seek a high level of assurance that they do not contain errors whose total effect would be material enough to mislead the reader.

2.40 In the next four sections I consider in more detail what my audit opinion on the government's 1990 financial statements means and how I arrived at it.

Mandate for My Audit of the Government's Financial Statements

2.41 The mandate for my audit of the government's financial statements is contained in section 6 of the Auditor General Act. Section 6 states that "the Auditor General shall examine the several financial statements required by section 64 of the Financial Administration Act to be included in the Public Accounts, and any other statement that the President of the Treasury Board or the Minister of Finance may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have."

An Overview of My Audit Opinion

2.42 My audit opinion on the government's financial statements consists of two paragraphs. The first, commonly referred to as the "scope" paragraph, identifies the financial statements that I have examined and reported on and the nature and extent of the audit work that I have performed. The second, commonly called the "opinion" paragraph, contains my conclusions about the government's financial statements.

2.43 **The scope paragraph.** The scope paragraph begins by listing the financial statements covered by my opinion. These financial statements, and the information they convey, are summarized in paragraph 2.8. It is important to note that my audit opinion relates only to these summary financial statements and related notes contained in Section 2 of Volume I of the Public Accounts of Canada. It does not extend to the more detailed information presented in other sections of the Public Accounts Volume I, or to Volumes II and III.

2.44 The scope paragraph concludes by stating that my audit work on the government's financial statements has been conducted according to generally accepted auditing standards prescribed by the Canadian Institute of Chartered Accountants. I use these standards to ensure that my audit is conducted with appropriate rigor and professionalism.

2.45 **The opinion paragraph.** The opinion paragraph contains my conclusions about two matters. First, whether the financial statements were prepared in accordance with the government's stated accounting policies consistently applied. Second, whether the financial statements may be relied on to present fairly the government's financial position, results of operations, changes in financial position and financial requirements.

2.46 To present information fairly, the financial statements must be free of material misstatement. When determining what constitutes a misstatement, there must be standards against which my judgments can be made. The government's stated accounting policies are the standards that I have used this year.

2.47 Some accounts, such as the allowance for general contingencies, are inherently imprecise. When considering whether misstatements exist in these accounts, I determine a range of values for each that I believe would be reasonable. If the balance of the account as determined by the government falls within my range, I conclude that there is no misstatement.

2.48 If I conclude that, in the aggregate, the financial statements are free of material misstatement, I report that information is "presented fairly". If the statements are materially misstated, I use the phrase "do not present fairly" and add supporting "reservations" to explain why.

2.49 This year, as in 1989, I have concluded and reported that the financial statements have been prepared in accordance with the government's stated accounting policies.

2.50 However, I have made three significant changes to my opinion paragraph this year because of the strengthened accounting policies referred to in paragraph 2.13.

(i) I have concluded and reported that the government's financial statements present information fairly, because the strengthened accounting policies remove from the statements the distortions that I have reported in three audit reservations in past years.

(ii) As a consequence, I have deleted the three reservations from my audit opinion.

(iii) Also as a consequence, I have added that the 1989 financial statements have been restated to reflect the accounting policy changes made in 1990.

Materiality and Overall Audit Assurance

2.51 In planning my audit of the government's financial statements, I consider two main factors in determining the nature and extent of the work required. The first is a dollar figure called "materiality"; the second is a percentage figure called "overall audit assurance".

2.52 **Materiality.** As discussed in paragraph 2.46, to present information fairly the financial statements must be free of material misstatement. The concept of materiality is therefore implicit in the phrase "present fairly".

2.53 The aggregate of all misstatements is considered material if, in the light of surrounding circumstances, it is probable that the misstatements would change or influence the decision of a person who is relying on the financial statements. In saying this, I assume that the person is someone with reasonable knowledge of the government and its activities. I will include a reservation in my audit opinion if I believe that the aggregate of all misstatements in the financial statements exceeds the materiality levels established.

2.54 I planned my audit of the government's 1990 financial statements to detect misstatements that affect the deficit for the year or amounts charged to appropriations if the misstatements aggregate to more than $600 million. (While this is a large amount in absolute dollars, it represents only one-half of one percent of total expenditure, or two percent of the deficit for the year.) A figure of $1.2 billion is used for other misstatements, such as those affecting contingent liabilities and other items disclosed in notes to the financial statements.

2.55 It should be noted that my audit is designed to detect individual misstatements that are significantly smaller than the aggregate amounts shown above. As a consequence, misstatements considerably less than $600 million will be identified. Should I believe that any of these would cause readers to be misled, I would request the government to take corrective action. If the misstatement is not corrected, I would also include a reservation in my audit opinion.

2.56 **Overall audit assurance.** In conducting my audit, I cannot be 100 percent certain that it will reveal all misstatements in the financial statements that, individually or in the aggregate, may be material. The size and complexity of the government, as well as cost considerations, make it impractical for me to examine all or even most of the approximately $1.5 trillion-worth of individual transactions entered into during the year.

2.57 Overall audit assurance represents how certain I want to be that my audit will reveal misstatements aggregating to more than the predetermined materiality level. In this regard, generally accepted auditing standards require that I have "reasonable assurance". I planned my audit of the government's 1990 financial statements to achieve a high level of overall audit assurance.

2.58 To obtain the desired level of assurance, I verified samples of transactions and account balances, performed analyses, confirmed year-end balances with third parties and reviewed significant internal controls.

When planning the nature and extent of each of these procedures, I used an overall assurance level of approximately 97 percent.

2.59 What this amounts to is exercising professional judgment about how much auditing is required to provide the desired level of assurance to the users of the statements that they can rely on the reported results and not be misled.

2.60 In summary, I have concluded that the financial statements present information fairly. This indicates that I have a high level of assurance that the statements are free of material misstatement.

Auditing for Compliance with Parliamentary Authorities

2.61 As part of my audit of the government's financial statements, I examine and verify compliance with parliamentary authorities to spend, borrow and raise revenues. I do this to the level of materiality I established in auditing the government's overall financial position, results of operations, changes in financial position and financial requirements. However, this level of materiality is significantly larger than many of the authorities being audited.

2.62 For example, spending authority is granted by Parliament in Appropriation Acts, commonly called votes. There were over 400 of these in the current year. Many departments are responsible for several votes: these vary in complexity and can range in size from a few thousand to several billion dollars. It would not be practical for me to audit each vote every year to a level of materiality appropriate to its size.

2.63 I have therefore decided to perform detailed verifications of the relevant legislative and government authorities on a cyclical rather than an annual basis. The results of this work are included in the applicable chapters on departments and agencies in this annual report to Parliament.

Other Audit Observations

The following Other Audit Observations have been conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants.

3

Audit Notes

Audit Notes

Main Points

3.1 The Auditor General Act requires the Auditor General to include in his annual report matters of significance that, in his opinion, should be brought to the attention of the House of Commons

3.2 The Audit Notes chapter fulfils a special role in the annual Report. Other chapters normally describe the findings of the comprehensive audits we perform in particular departments; or they report audits and studies of issues that relate to government operations as a whole. The Audit Notes chapter is a compilation of individual matters that have come to our attention during our financial audits of the Public Accounts of Canada, Crown corporations and other entities. It is also used to report some specific matters that have come to our attention during the performance of our comprehensive audits.

3.3 The chapter contains a wide range of notes. Three relate to Crown corporations, and the balance to departmental operations. The three Crown corporation notes deal with allowances for potentially significant financial losses. Two notes on departmental operations deal with costly unintended income tax benefits provided by the Canadian tax system. The other notes on departmental operations generally concern expenditures of public money without due regard for economy or without adequate authority.

3.4 While the notes report matters of significance, they should not be used as a basis for drawing wider conclusions about matters we did not examine.

Table of Contents

Paragraph

Introduction 3.5

Observations on Crown Corporations 3.7

Government of Canada
- The Government has not yet sought Parliament's authority to guarantee $4.2 billion owing to the Canadian Wheat Board 3.8

Export Development Corporation
- Inadequate recognition of sovereign risk continues: Loan losses allowance of at least $500 million not booked in the accounts 3.14

Farm Credit Corporation
- Limitation in the scope of the Auditor General's examination of Farm Credit Corporation's financial statements for the year ended 31 March 1990 3.17

Observations on Departmental Operations

Atlantic Canada Opportunities Agency
- Failure to adequately evaluate the commercial viability of a $5.1 million investment in an ACOA Action Program repayable contribution agreement 3.20

Canadian International Development Agency
- Lack of a complete feasibility study led to a non-productive expenditure on a Canadian aid project in Pakistan 3.26

Department of Agriculture
- Controls in the Agricultural Stabilization Board need to be strengthened to discharge fully federal responsibilities resulting from the National Tripartite Stabilization Program 3.31
- In signing three agreements with Farm Credit Corporation, the Department did not comply with Treasury Board guidance on contracting, and as a result, exceeded its delegated authority for signing sole-source services agreements 3.38
- $525,000 payment in advance of need 3.46

Department of the Environment
- Payments in advance of need to avoid lapsing funds resulted in additional interest costs 3.50

Table of Contents (cont'd)

Paragraph

Department of External Affairs

Need for Parliament to clarify Export Development Corporation's statutory borrowing limit 3.55

Need to improve control of monies advanced to employees 3.61

Responsibility for providing information to Parliament for the Canada Account and related responsibility for managing the account remain unclear despite Treasury Board requirements to rectify the problem 3.70

Department of Finance

Canadian tax system can provide an unintended benefit to foreign tax systems 3.76

Corporate income not taxed by Canada can earn federal and provincial tax credits for shareholders 3.85

Interest cost due to delay in authority to tax 3.94

Department of Fisheries and Oceans

A specified purpose trust account for the Sea Lamprey Control Program was improperly maintained and incorrectly used to avoid lapsing funds at year-end 3.99

Department of Industry, Science and Technology

Program terms and conditions not respected in the special programs for the Laprade and Thetford-Mines regions 3.103

Inappropriate method of supporting an industrial project 3.115

Continuing problems in the management of repayable contributions 3.121

Department of Transport (Canadian Coast Guard)

Mid-life modernization of CCGS Louis S. St. Laurent: A major crown project without a demonstrated need and with escalating costs 3.125

Department of Transport

Lester B. Pearson International Airport Terminal 1 Parking Garage: Inadequate safeguarding of a Crown asset and monitoring of public safety 3.143

Department of Western Economic Diversification and Former Department of Regional Industrial Expansion

Approval for turbocharger project questionable, and contribution payments not adequately justified 3.147

Exhibit

3.1 Designated Countries

Audit Notes

Introduction

3.5 This chapter contains matters of significance that have come to our attention during the performance of our audits and that we believe should be drawn to the attention of the House of Commons. They have not been reported in other chapters of this Report

The audit notes contain matters of significance that the Auditor General is drawing to the attention of the House of Commons.

3.6 Section 7(2) of the Auditor General Act requires the Auditor General to call Parliament's attention to any significant cases where he has observed that:

(a) accounts have not been faithfully and properly maintained or public money has not been fully accounted for or paid, where so required by law, into the Consolidated Revenue Fund;

(b) essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property, to secure an effective check on the assessment, collection and proper allocation of the revenue and to ensure that expenditures have been made only as authorized;

(c) money has been expended other than for purposes for which it was appropriated by Parliament;

(d) money has been expended without due regard to economy or efficiency; or

(e) satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented.

Observations on Crown Corporations

3.7 The Auditor General is appointed auditor of a number of Crown corporations and other entities, under the Financial Administration Act, individual Acts incorporating specific corporations, or by orders-in-council. Details of significant reservations and other matters contained in reports issued to these corporations and entities during the year are set out below. Most of these matters have already been raised in a public forum, but they are reported here for emphasis and for consideration by Parliament.

Government of Canada

The Government has not yet sought Parliament's authority to guarantee $4.2 billion owing to the Canadian Wheat Board

In our 1989 annual Report, we reported that the government and the Canadian Wheat Board were relying on a guarantee of amounts owing to the Board issued without the authority of Parliament. Since then, the government has not sought the necessary authority of Parliament, and the Wheat Board continues to rely on a guarantee in determining the balances in its pool accounts, which it pays to farmers. Billions of dollars are owed to the Board. A significant amount is owing from financially troubled countries and continues to grow by some $300 million per year.

3.8 In our 1989 Report (paragraphs 4.10 to 4.16), we reported our concern related to a letter of comfort issued 18 years ago by the government to the Canadian Wheat Board (CWB). Section 29 of the Financial Administration Act (FAA) provides that the government can legally issue such a guarantee only with the authority of Parliament. Such authority has never been sought. In the 1972 letter of comfort, the then Minister responsible for the CWB assured the Board that amounts owing to it arising from export credit sales of grain were guaranteed by the government in the event of buyer default. In addition, following deliberations by Cabinet, the Board is regularly provided with information detailing the eligible countries and the prescribed credit limit for each country eligible to purchase grain from Canada on credit.

3.9 In writing last year's Report, we noted that there were indications that the government would move quickly to seek the necessary parliamentary authority. At the time of writing this year's Report, the government had not sought the necessary authority of Parliament. However, in July 1990, a senior government official wrote to us in response to last year's Report and indicated that it was proposed to deal with the issue through an amendment to the CWB Act. However, he was unable to be specific as to when a Bill would be tabled. Department of Agriculture officials indicated that there had been progress in putting together the necessary documentation and that further progress was expected shortly.

3.10 We are concerned about the delay in implementing corrective action, particularly in light of the fact that it is Parliament's prerogative of approving the creation of a liability before it is incurred rather than after the fact that is being infringed upon, and the amount of money involved. The amounts owing to the Board that are covered by the guarantee have grown to $4.2 billion, of which some $3.4 billion are from financially troubled countries. In our opinion, the value of the Board's troubled receivables is impaired by at least $2.1 billion, and this impairment continues to grow at a rate of some $300 million a year.

3.11 CWB's position, as stated in its 1988 89 annual report, which was released in April 1990, is that "the bottom line from the Board's and farmers' perspective is that the government has clearly stated that they are guaranteeing the Board's receivables and bank loans, hence the farmer is not at risk." The Board has taken this position notwithstanding the fact that we have publicly reported that a guarantee of the Board's receivables requires the authority of Parliament and no such authority has yet been sought by the government.

3.12 The CWB Act requires that the Board receive payment in full for the grain that it has sold before it pays the balances in its pool accounts to producers. However, it would appear that, based on this guarantee of the Board's receivables, the Board continues to believe that it has sufficient assurance of receiving "payment in full", if not from its debtors, then from the government, and that it can proceed with payment of these balances to producers. Accordingly, the balances, which for the crop year ended 31 July 1989 amounted to over $335 million, are calculated assuming that no bad debts will be incurred in collecting these receivables and are paid to producers without the Board having received "payment in full".

3.13 We believe strongly that Parliament should be given an early opportunity to debate and decide this matter before it continues any longer and that appropriate parliamentary approval must be received.

Export Development Corporation

Inadequate recognition of sovereign risk continues: Loan losses allowance of at least $500 million not booked in the accounts

The loan portfolio of Export Development Corporation (EDC) as at 31 December 1989 contained $4.718 billion exposure to less developed countries (LDCs). Many of these countries have continued to experience difficulties in repaying their debts as they *become due. To cover what management perceives as the risks associated with the collection of these sovereign loans, the Corporation has established a $325 million general allowance for losses on loans. In our opinion, this allowance does not adequately recognize the risk associated with the collectability of the Corporation's sovereign loans. In addition, we believe that the Corporation's current methodology used to estimate the amount of the allowance is inadequate.*

3.14 **The issue.** In our opinion, the Corporation's major asset, consisting of sovereign loans receivable in the amount of $4.718 billion, is overvalued. Our analysis indicates that the general allowance of $325 million for losses on loans should be increased by at least $500 million, to a minimum of $825 million. As a result, in our opinion, the financial statements of the Corporation do not present fairly the valuation of these sovereign loans in accordance with generally accepted accounting principles. If a reasonable allowance for losses on loans had been established, the net loans receivable amount of $5.154 billion shown on the Corporation's balance sheet would have been reduced by at least $500 million. The effect of increasing the general allowance would have caused retained earnings to become a deficit of $492 million or more, resulting in a significant impairment of shareholders' equity.

3.15 An accurate and fair presentation of EDC's financial statements is important in order to maintain the Corporation's accountability to Parliament. An inaccurate reporting on the cost of operations renders it difficult to properly assess the Corporation's lending operations.

3.16 **Related concern.** In our view, the Corporation's current methodology used to estimate the amount of the allowance is inadequate. The methodology does not result in any documented link between the amount determined and an assessment on a country-by- country basis of each country's ability and willingness to repay its debt. In our opinion, the Corporation should take prompt remedial action to implement an adequate methodology to recognize sovereign risk and arrive at a more appropriate allowance for loan losses.

***Management's response**: The Board of Directors and management continue to disagree with the Auditor General's audit opinion. In particular, the Corporation disagrees with the view that, in the case of some of its loans, the principal outstanding may not be ultimately collectable in full.*

Farm Credit Corporation

Limitation in the scope of the Auditor General's examination of Farm Credit Corporation's financial statements for the year ended 31 March 1990

The Auditor General has included a reservation in his report on the financial statements of the Farm Credit Corporation (FCC) for the year ended 31 March 1990. This reservation describes a limitation in the scope of the Auditor General's examination of those financial statements, which was such that he did not have sufficient evidence to conclude that the allowance for loan losses (and consequently, certain other items) in FCC's financial statements were fairly presented in accordance with generally accepted accounting principles.

3.17 Management is responsible for preparing financial statements that fairly present the Corporation's financial position and the results of its operations. In doing so, management uses supporting documentation, evidence and analyses for the assertions made in the financial statements. When, after reviewing the supporting documentation, evidence and analyses provided by management, and carrying out such other procedures as may be available to them, auditors conclude that they do not have sufficient and appropriate audit evidence to enable them to form an opinion as to whether certain items in the financial statements are fairly presented, the standards of the profession require that auditors qualify their opinion in the form of a scope limitation in the auditor's report.

3.18 Farm Credit Corporation's financial statements for the year ended 31 March 1990 include loans receivable of $3,573 million, which are stated net of an allowance for loan losses of $279 million. A summary of FCC's accounting policy for the allowance is that it "represents management's best estimate of probable losses on the loans outstanding at the end of the year." It includes "... a specific component which is based on the review of outstanding undersecured loans and a general component, which is prudential in nature, to provide for loan losses which have not yet been specifically identified."

3.19 Although the Corporation provided us with evidence and analysis in support of the inclusion of $188 million in the allowance for loan losses, it was unable to provide adequate support, in our opinion, for the balance of $91 million. As a consequence, we were unable to satisfy ourselves as to the appropriateness of this additional amount and were unable to determine whether any adjustments might be necessary to FCC's allowance for loan losses, its provisions for loan losses, its net income (loss) for the year and its deficit. This was reported as a scope limitation in the auditor's report on FCC's financial statements.

Observations on Departmental Operations

Atlantic Canada Opportunities Agency

Failure to adequately evaluate the commercial viability of a $5.1 million investment in an ACOA Action Program repayable contribution agreement

Atlantic Canada Opportunities Agency (ACOA) did not adequately evaluate the commercial viability of the proposed product lines of an applicant for an Action Program contribution agreement before requesting ministerial approval for the project.

3.20 In 1989, ACOA entered into a repayable contribution agreement under the ACOA Action Program, to assist a company in Nova Scotia to establish a facility to assemble and test diesel engines and generators. The company's proposed operations were to be carried out under a North American licence agreement obtained from an internationally known supplier of these products.

3.21 The total eligible capital costs were estimated at $11.3 million. ACOA Action Program assistance was projected at $5.1 million. The total of all federal government assistance was projected at $7.1 million.

3.22 As part of the overall evaluation of the application, ACOA requested technical advice from the Department of Regional Industrial Expansion (DRIE). DRIE expressed serious concerns about the proposal, particularly with respect to projected markets and other matters. ACOA requested the applicant to respond to DRIE's concerns. The applicant's responses, however, were not subsequently provided to DRIE for evaluation. ACOA did not obtain other independent advice to assist it in evaluating the responses. ACOA officials informed us that they placed significant reliance on the involvement of the international supplier in evaluating the commercial viability of the project.

3.23 The Minister responsible for ACOA approved the project on the understanding that DRIE supported the initiative to develop this manufacturing capability and that its concerns had been adequately addressed. In our view, DRIE's concerns had not been adequately addressed and the procedures used to evaluate the commercial viability of the project were inadequate.

3.24 ACOA paid $2.23 million to the applicant in accordance with the agreement. Before commercial production could be reached, the applicant encountered financial difficulties. The company's application to appoint a custodian was approved by the Nova Scotia court in early December 1989. In early 1990 the company was placed into receivership.

3.25 ACOA officials consider the procedures used to evaluate the commercial viability of this project to have been appropriate.

Canadian International Development Agency

Lack of a complete feasibility study led to a non-productive expenditure on a Canadian aid project in Pakistan

> *CIDA provided $2.3 million to finance a coal-washing plant in Pakistan that has been reported to have achieved less than one percent of its designed capacity over the 10 years since it opened. CIDA did not ensure that a complete feasibility study was carried out before the project started. There are indications of other recent instances where CIDA did not ensure that complete feasibility studies were completed before it supported projects.*

3.26 Under a bilateral agreement signed with Pakistan in 1975, the Canadian International Development Agency (CIDA) agreed to finance $1.6 million of the cost of a project to supply a coal-washing plant in the province of Baluchistan. The financing, as was usual in such agreements, took the form of an interest-free loan. The repayment period of the loan is 40 years and started in 1985. Implementation of the project started in 1977, and the plant was officially opened in April 1980.

3.27 Before agreeing to finance this project, however, CIDA did not ensure that a complete feasibility study was carried out. There was inadequate assurance that the washed coal would be purchased by anyone to sustain the viability of the project or, as confirmed subsequently, that it could be transported economically in adequate quantities to an end user. Furthermore, there was inadequate assurance that the equipment specified was suitable for the quality of coal to be washed.

3.28 Our audit revealed that tests on the quality of the coal to be washed were conducted for CIDA after the equipment had been supplied to the plant site. It also showed that the properties of the coal were different from those for which the plant had been designed. The Pakistan government had intended that the washed coal from the plant be used as coking coal in the manufacture of steel, but its sulphur content was too high. Furthermore, there was inadequate assurance that the Pakistan Railways had the capacity to handle the extra traffic involved in shipping the coal on its single-line railway from the mine to potential end users. Operational difficulties were encountered as soon as the plant was opened, and it was unable to process the coal at a sustainable rate. It has been reported that the plant has achieved a rate of less than one percent of its designed output over the 10 years since it opened.

3.29 Efforts to increase the plant's capability to process coal were initiated by CIDA but ceased in 1984, by which time CIDA had contributed over $750,000 in grants over and above the loan amount of $1.6 million in an effort to correct errors and omissions in the management of the project. Thus, the total outlay by Canada in support of this project was $2.3 million. In our view, since the plant totally failed to meet its design objectives, there was little value obtained for the money spent on it.

3.30 We have also noted indications of other recent instances where CIDA did not ensure that complete feasibility studies were carried out before it supported projects. In our opinion, CIDA should ensure that such studies are carried out for all capital development projects it supports.

Management's response: *CIDA does not agree with the implication that it was accountable for the failure of the plant. The Agency obviously cannot be held accountable for all aspects of large integrated projects when working in co-operation with a sovereign foreign government. CIDA no longer provides loans to developing countries.*

Department of Agriculture

Controls in the Agricultural Stabilization Board need to be strengthened to discharge fully federal responsibilities resulting from the National Tripartite Stabilization Program

In our opinion, adequate management verification systems and procedures are not in place within the Agricultural Stabilization Board (ASB) to allow for proper authorization of federal government contributions to the National Tripartite Stabilization Program. Furthermore, adequate reporting systems are not in place within the ASB to produce timely financial information to meet external reporting requirements. From the inception of the program in 1986 to 31 March 1990, federal government contributions to the program have exceeded $230 million. Payments to producers from the various price stabilization plans have exceeded $800 million for the same period. While the ASB has begun to address these issues, we are concerned that they have not yet been resolved after the program has been operational for almost four years.

3.31 The Agricultural Stabilization Board's (ASB) objective is to stabilize the returns received by producers, to help the industry realize fair returns for its labour and investment and to maintain a fair relationship between prices received by farmers and the costs of goods and services they buy. To this end, the Agricultural Stabilization Act (the "Act") authorizes the Minister of Agriculture, with the approval of the Governor in Council, to enter into agreements with the provinces for the establishment of various commodity price stabilization plans. These plans are collectively described as the National Tripartite Stabilization Program (NTSP). Funding of the NTSP is shared equally by Canada, participating provinces, and participating enrolled producers, subject to maximum contribution levels by Canada and the provinces. The Act and the individual plan agreements require that producer premiums be set at a level that ensures that plans are financially self-sustaining. Over time, total premiums, contributions and interest accrued should equal total payments.

3.32 As at 31 March 1990, eight NTSP plans were in place for beef, lambs, hogs, apples, white pea beans and other dry edible beans, sugar beets, honey and onions. From the inception of the first plans in 1986 to 31 March 1990, federal contributions to these plans have exceeded $230 million. Stabilization payments to producers exceeded $800 million for the same period, and loans from Canada as at 31 March 1990 amounted to some $240 million. There are nine participating provinces and some 50,000 producers now enrolled in the NTSP.

3.33 The NTSP agreements define eligible units (e.g., sales or production) relating to a specified time period (e.g., crop year or calendar quarter) for which enrolled producers must remit required premiums to provincial administrators. The NTSP agreements assign to the provinces the responsibility for verifying producer compliance with the agreements.

3.34 Federal funding of the NTSP is made by way of statutory contributions. The ASB is required, when authorizing these contributions, to certify that the terms and conditions of the NTSP agreements are being met The completeness and accuracy of producer premiums are required in order to support the financially self-sustaining criteria of all NTSP plans. They are also required to ensure fairness amongst all participating provinces and enrolled producers. In our opinion, the ASB authorizes federal contributions without sufficient assurance that the provinces and producers are fully in compliance with the terms and conditions of the related agreements. Control systems and procedures in place at the ASB are not adequate to support these management verification responsibilities. As a result of these circumstances, as auditors of the NTSP plans, we have included scope reservations regarding the completeness of premium revenues in our auditor's reports on the financial information for the Beef and Lamb Plans since their inception in 1986. Similarly, our auditor's report on financial information for the White Pea Bean and Other Dry Edible Bean

Plan for the year ended 31 August 1988 also included a reservation. Further, we were unable to express an opinion on the financial information for the Apple Plan for the year ended 31 July 1988.

3.35 The ASB has recognized that there are certain limitations in their management verification procedures and are in the process of developing improved procedures. However, it is unclear whether or not such procedures, if implemented, could provide sufficient assurance to determine compliance with the terms and conditions of the NTSP agreements. In our opinion, this is due, in part, to the nature of the agricultural industry and some of the terms of the NTSP agreements for which it is difficult to assess compliance accurately.

3.36 Furthermore, the ASB is responsible for the preparation of annual reports for each of the eight NTSP plans. Due, in part, to cumbersome financial accounting systems and procedures in place at the ASB that do not support timely financial reporting, the stabilization committees have received these reports for their approval anywhere from seven to 17 months after the financial year-ends of the NTSP plans. While the stabilization committees do receive more timely interim unaudited financial information for their review, it often varies significantly from the audited financial information contained in the annual reports. Such delays in the receipt of final financial information severely limits its usefulness.

3.37 The size of the plans increased significantly in 1989/90 (federal contributions increased from some $43 million in 1988/89 to some $128 million in 1989/90). Prudent management procedures justify the need for improved management, monitoring and reporting processes.

In signing three agreements with Farm Credit Corporation, the Department did not comply with Treasury Board guidance on contracting and, as a result, exceeded its delegated authority for signing sole-source services agreements

> *The Department of Agriculture signed and implemented three agreements with Farm Credit Corporation between February 1988 and March 1990, for a total of over $1.7 million, without going through the competitive process. In doing so, the Department did not follow Treasury Board guidance on entering into arrangements with Crown corporations, which suggests that these be treated as contracts. As such, Treasury Board approval should have been sought because the amount of each of the agreements exceeded the authority delegated to the Department for signing sole-source services agreements.*

3.38 Treasury Board policy, established pursuant to the Financial Administration Act and its Government Contracts Regulations, says that "Government contracting shall be conducted in a manner that will stand the test of public scrutiny in matters of prudence and probity, encourage competition, and reflect fairness in the spending of public funds. . . . " In particular, under the same policy, Treasury Board approval must be obtained prior to entering into contracts where the values exceed the limits prescribed by the Treasury Board. Similarly, authority to conclude arrangements on behalf of the Crown must be exercised within the letter and the spirit of the Government Contracts Regulations, the Treasury Board Contracts Directive, and the government's procurement policies.

3.39 Treasury Board Secretariat officials have advised that, while arrangements between departments and Crown corporations may not be contracts in a strictly legal sense, the conditions of contract entry, the financial security provisions of the Government Contracts Regulations and the dollar limits in the Treasury Board Contracts Directive still apply to these arrangements. This is to maintain consistency with the controls for contractual arrangements. One guideline specifically mentions that the aforementioned regulations and directive apply to such arrangements, although the Administrative Policy Branch of Treasury Board does not view it as mandatory. In discussion with Treasury Board officials, we have been informed that seeking Treasury Board approval is general practice when departments enter into agreement with Crown corporations.

3.40 We have noted three instances where the Department of Agriculture has entered into agreements with the Farm Credit Corporation (FCC) without receiving the required prior Treasury Board approval for amounts exceeding their delegated authority for contracts issued without a competitive process.

3.41 In February 1988, the Department of Agriculture signed an agreement with the FCC for a total cost of $260,000, for the purpose of carrying out a survey of farmers to collect farm financial information and to provide certain data and analysis to the Department.

3.42 In August 1989, while in the process of preparing another agreement with FCC, the Department requested a Treasury Board Secretariat interpretation of the policy on contracting. The Department was advised that a submission to the Treasury Board seeking authority to enter into an agreement with a Crown corporation was required when the value of the agreement exceeds the departmental authority. The departmental authority is set at $50,000 for sole-source non-consulting services contracts. Nevertheless, the Department did not follow this advice and, in November 1989, signed a second agreement with FCC to provide project assessment and monitoring capabilities for a total cost of $475,000.

3.43 Further, as discussed in paragraphs 3.46 to 3.49, in March 1990, a third agreement for a total amount of $995,000 was signed with FCC to carry out the 1990 farm survey.

3.44 The Department ought to have sought Treasury Board approval to enter into these agreements with FCC.

3.45 Discussions with departmental officials involved in the contracting process indicated that they interpreted the Treasury Board guidelines in this area to be sufficiently flexible to permit the Department to enter into these agreements. Treasury Board officials, while acknowledging the possible ambiguity in the guidelines, have subsequently recommended that the Department prepare a submission seeking the Board's ratification of the current agreements with FCC and approval of the advance payment made in regards to the agreement for the 1990 farm survey.

$525,000 payment in advance of need

On 30 March 1990, the Department of Agriculture made a $900,000 payment to Farm Credit Corporation (FCC) for costs related to the 1990 farm survey. According to documentation that the Department subsequently requested from the Corporation, $525,000 of this amount was paid in advance of need. At the time of payment, FCC had not yet incurred all of the costs that the payment was intended to reimburse. Additionally, the Department did not follow sound contract administration practices in executing this agreement.

3.46 On 21 March 1990, Farm Credit Corporation (FCC) and the Department of Agriculture signed an agreement that provides that FCC carry out a 1990 farm survey and that the Department of Agriculture pay all of the "incremental costs" of carrying out the survey. Departmental officials have indicated that, although the agreement was signed on 21 March 1990, it was the culmination of negotiations between FCC and the Department of Agriculture that had commenced in the fall of 1989, on the need for the survey, the timing, the methodology to be used, the expected outputs, and the basis of sharing the costs of the survey. On 26 March 1990, FCC submitted an invoice for $900,000, which was approved for payment by the Department of Agriculture on 30 March 1990. There was no supporting documentation accompanying the invoice to indicate that FCC had incurred any of the claimed incremental costs at the time the payment was requested, and there was no evidence to indicate that the Department sufficiently challenged the invoice to verify that the charges were correct. According to departmental staff, the charge seemed reasonable at the time the invoice was authorized for payment, since it was understood that the major portion of the contract had been completed in accordance with the terms of the agreement. The invoice was certified pursuant to sections 33 and 34 of the Financial Administration Act, and the full amount was paid from 1989 90 funds voted by Parliament.

3.47 Subsequent to the payment of the invoice, the Department requested additional documentation from FCC. This additional documentation indicated that only $375,000 of the costs had been "recorded" by FCC up to 31 March 1990 and, as such, were valid charges against the appropriation for 1989 90. Accordingly, $525,000 was paid in advance of need, resulting in increased financing costs to the Consolidated Revenue Fund.

3.48 In addition to the above, we noted several other concerns related to this agreement.

- The payment terms required the Department to pay up to $995,000 "on receipt of an invoice by 31 March 1990." There were no standards of performance explicit in the agreement upon which to determine what amounts should be paid. Good contract administration would have stipulated clearly the basis on which payment was to be made. As indicated above, $525,000 was paid in advance of need.
- There was no audit provision in the agreement, no requirement that invoices be accompanied by supporting documentation and no requirement that FCC demonstrate tothe Department's satisfaction that the expenses FCC submitted for payment were eligible for reimbursement under the terms of the agreement. Departmental officials have responded that, in their view, risk of loss is minimal under the circumstances, as both parties to the agreement are accountable to the same Minister and both parties recognize that a full accounting would be provided by FCC on completion of the agreement.
- The agreement did not define "incremental costs". However, a detailed estimate of costs was provided by FCC at the time the agreement was drawn up and both the Corporation and the Department indicated that a clear understanding exists on what is included in incremental costs.
- The Department exceeded the $50,000 authority level delegated to it for signing sole-source services agreements. This was done despite the Department having received specific advice from a staff officer of the Treasury Board Secretariat in August 1989, stating that entering into an agreement such as this with a Crown corporation required a Treasury Board submission and approval (see also paragraphs 3.38 to 3.45).

3.49 Additionally, the Financial Administration Act requires that signing officers certify that the services have been rendered at the time of payment. In this case, the certification was provided without the signing officers having sufficient documentation to determine if the services had in fact been rendered. We are concerned that a fundamental control that should prevent such payments was not operating effectively. Departmental officials have advised us, however, that the payment appeared reasonable in the judgment of the responsible program manager in relation to the amount of progress understood to be completed. They also pointed out that the payment was made to an organization that reports to the same Minister and represented minimal risk.

Department of the Environment

Payments in advance of need to avoid lapsing funds resulted in additional interest costs

The Department of the Environment has entered into agreements with various provincial and municipal governments to contribute funds to environmental clean-up *projects. In the two cases we examined, the Department paid the federal share of costs before the funds were needed. Although the payments were legal under the terms of the agreements, they resulted in additional interest costs of approximately $127,000 to the federal government.*

3.50 Present spending rules do not allow departments to carry over unused funds from one year to the next. If spending authority lapses for a major contribution project that is running behind schedule, departments have to either find funds in the following year's budget or go back to Treasury Board for additional funds.

3.51 For several years, we have reported instances where departments have made payments in advance of need, often to avoid lapsing funds. Payments made in advance of need can result in additional borrowing costs to the government. The Office of the Comptroller General (OCG) has been working with departments to improve cash management practices, including ensuring that payments are not made in advance of need. The OCG has noted significant savings resulting from improvements in cash management practices in government, including the Department of the Environment. Nevertheless, instances still arise where departments make payments in advance of need to avoid lapsing funds.

3.52 The Department of the Environment received Treasury Board approval to contribute $23.97 million to the cost of cleaning up the Tar Ponds in Sydney, Nova Scotia, and $1.25 million to the cost of cleaning up the Windermere Basin in Hamilton, Ontario. Near the end of the 1988/89 fiscal year it became apparent that, due to delays beyond the control of the Department, the funds required in 1988/89 for the two projects would be less than had been allocated and the amount required in future years would be more, by a corresponding amount.

3.53 The Department avoided lapsing funds by paying $1.26 million for the Sydney Tar Ponds clean-up and $478,000 for the Windermere Basin clean-up before the funds were required. Although the payments were legal under the terms of the agreements, they were contrary to good cash management practices as set out in Treasury Board policy and guidelines. As a result, the federal government incurred additional interest costs of approximately $127,000.

3.54 In December 1989, the Treasury Board announced that the carry-over of a portion of lapsed operating funds would be allowed in certain circumstances beginning with the 1990/91 fiscal year. However, this change does not apply to contributions. At the time of writing, Public Service 2000 was examining options that would allow departments more flexibility in managing their budgets, including contribution budgets for major projects.

Department of External Affairs

Need for Parliament to clarify Export Development Corporation's statutory borrowing limit

Section 14 of the Export Development Act needs an amendment to clarify the method for computing the borrowing limit of Export Development Corporation (EDC). The wording of the Act in this regard is ambiguous. The large deficit that in our opinion exists at EDC is unprecedented, and was therefore possibly not contemplated at the time legislation was enacted in 1983.

3.55 **Background.** Section 14 of the Export Development Act establishes a limit on the total amount of the borrowings of the Corporation. The Act allows the Corporation to borrow up to a maximum of ten times the total of the government's investment in the Corporation (the paid-in capital) and any income retained by the Corporation (its retained earnings) determined in accordance with the most recent statements of accounts of the Corporation for a financial year that have been audited by the Auditor General of Canada.

3.56 In our audit report dated 1 March 1990, addressed to the Minister for International Trade, we stated that the effect of recognizing losses of at least an additional $500 million on sovereign loans would result in the reported retained earnings of $8 million becoming negative (i.e. a deficit of at least $492 million, see paragraph 3.14), which would cause a significant impairment of shareholders' equity. This is an unprecedented situation for the Corporation. It is unclear whether such a deficit position was contemplated in 1983 when the wording of section 14 was drafted.

3.57 **The issue.** Ambiguity exists in section 14 of the Act as to whether any deficit of the Corporation should be taken into account in determining the statutory borrowing limit.

3.58 At least two interpretations of section 14 are possible. First, if the Corporation incurs a deficit, the amount of the deficit (negative retained earnings) would be used to reduce the government's investment in the Corporation when determining the statutory borrowing limit. This would be similar to the requirements applicable to chartered banks. Second, the amount of the deficit would not be deducted from the government's investment. Instead, the borrowing limit would be determined by assuming retained earnings of zero. This is the Corporation's and the government's position.

3.59 **Our concern.** Our concern is the ambiguity in the interpretation of section 14. The way the Corporation and the government have interpreted this section of the Act allows the Corporation to continue borrowing even when the government's net equity in the Corporation (shareholders' equity) deteriorates through accumulated deficits. Under the present interpretation and practice, higher amounts are advanced to the Corporation via borrowings from the international capital markets while the risk to the taxpayer increases.

3.60 Because of this ambiguity, Parliament may want to clarify the Corporation's statutory borrowing limit.

Management's response: *The Department informed us that, unlike private banks and other commercial financial institutions, EDC has been set up to facilitate and develop trade between Canada and other countries by means of the financial and other powers provided by the Export Development Act. EDC was not set up to maximize the commercial return on money invested by the government in the pursuit of export financing business. Similarly, according to departmental officials, section 14 of the Act was not intended to define capital adequacy ratios that would serve to ensure that the Corporation was financially self-sustaining. Rather it was established to control the total amount of risk exposure to Canada via its agent, EDC. Therefore, the Department does not agree that it needs to seek clarification by Parliament of this section of the Act.*

Need to improve control of monies advanced to employees

The existing organizational structure and processes in the Department of External Affairs do not provide adequate control of monies advanced to employees. The amounts involved, according to departmental records, have increased from $15 million at 31 March 1986 to $25 million at 31 March 1990.

3.61 Our review of 60 overdue advances to 15 employees totalling over $500,000 revealed that some of these advances have been outstanding for over three years.

3.62 We found that there is no clear accountability for monitoring, following up and recovering amounts due to the Crown. The accounting records and management reports that would highlight the need for timely action are so poor that there is no assurance that the amounts due from employees as recorded in the accounts of Canada are accurate. Nor does the Department know what percentage of these accounts is overdue or how long amounts outstanding have remained overdue. In our audit of the 60 overdue advances, we found that for 35 of the advances the follow-up by the Department was ineffective and in some instances non-existent and that the other 25 advances had not been followed up in a timely manner. In addition, we found that five of these advances had not been recorded correctly in the financial records of the Department. The three following examples illustrate the need to improve controls.

3.63 **Ineffective follow-up.** An amount of $17,000 advanced to an employee for medical expenses in July 1985, due to be repaid to the Crown at least by October 1987, remained outstanding at the end of March 1990. We could not find any documentation on the follow-up of this advance after August 1987.

3.64 **Delayed follow-up.** An advance of $15,000 made in Canada in June 1988 to an employee at a mission for vacation leave purposes, which was due to be settled by September 1988, was not fully settled until April 1990. Approximately $9,000 of this advance was refunded to the Crown 18 months late. Follow-up procedures in Ottawa did not commence until 14 months after the advance became due

3.65 **Poor accounting records.** An advance of $56,000 to an employee to cover future hospitality expenses was identified, in the departmental financial system at headquarters, as outstanding since August 1988. However, the accounting system at the mission showed that only $1,000 was outstanding. No one had investigated the discrepancy between the two sets of records. We noted that an expense claim of $1,000 was processed for this employee in April 1989, but the transaction was not recorded in the departmental accounting system at headquarters or at the mission. A review of records at the mission disclosed that the full balance of $56,000 had been settled during the 1988/89 fiscal year.

3.66 We believe that there are at least six reasons why this situation has arisen:

- There is no focal point at headquarters to manage these advances. Responsibility for monitoring and follow-up is not well defined. For some types of advances we were unable to find any group responsible for follow-up and recovery of outstanding balances.
- The departmental reporting system provides information only on individual advances and not on the total amount of monies advanced to each employee. It also does not identify the amounts overdue.
- Financial officers at missions, who are responsible for managing these advances, do not always receive the reports they need to perform their duties.
- Follow-up and recovery procedures at Ottawa are delayed or not pursued, because they are given a lower priority than other responsibilities.
- Follow-up in certain instances is not actively pursued, because employees responsible for collection action believe that the departmental accounting system does not contain accurate records of the advances and they cease collection action if the employee states that the monies were repaid.
- When employees receive new postings, the balances in their advance accounts are not transferred to the new responsibility centre for monitoring and recovery.

3.67 We also noted that the Department had identified similar problems with the management of accounts receivable due from individuals and firms in the private sector.

3.68 It is important that management of the Department correct deficiencies in managing monies due to the Crown and ensure that public money has not been improperly retained by employees of the Department. The overall management of these amounts should be centralized, and responsibilities should be clearly defined and communicated to those who support the function. The management information system should provide appropriate reports for those managing the function, including consolidated records on each individual or firm owing monies to the Crown, as well as on amounts that are overdue. The information in the accounting system should be reviewed and all inaccurate data removed.

3.69 The management of the Department has acknowledged the seriousness of the situation and has recognized the need to resolve the problem. It has informed our Office that the Department's senior financial administration staff have begun a course of action to address this problem, as well as problems with other receivables. It has stated that the project proposal to correct these problems will be provided to our Office for review when it is complete. In addition, it has suggested that a review of this area be conducted by our Office in one year to provide assurance that appropriate accounting controls have been re-established.

Responsibility for providing information to Parliament for the Canada Account and related responsibility for managing the account remain unclear despite Treasury Board requirements to rectify the problem

> *The need to clarify responsibility for providing information to Parliament regarding loans to support export trade was brought to Parliament's attention in our 1989 Report, but still has not been properly addressed. In addition, a Treasury Board requirement, issued subsequent to our 1989 Report, for the submission of a report by 31 December 1989, was not carried out. This report was to identify which organization has responsibility for managing the Canada Account and describing the decision-making procedures that support this arrangement.*

3.70 **Background.** The Export Development Act provides for loans, insurance and guarantees for the purpose of facilitating and developing export trade. Contracts that, in the opinion of Export Development Corporation's (EDC's) Board of Directors, involve risks for a term or an amount in excess of that normally undertaken by the Corporation may be entered into under the authority of the Governor in Council, when the Minister for International Trade considers them to be in the national interest. These contracts are funded through External Affairs' appropriations, out of the Consolidated Revenue Fund, and the related transactions are referred to as the Canada Account. The contracts are often entered into at highly concessional terms, such as low interest rates and long periods of repayment. In addition, in the vast majority of cases these loans have been made to sovereign nations, some of which have subsequently experienced repayment difficulties. There is an annual cost to Canadians resulting from the concessional loan terms, the losses likely to be incurred if loans are not fully repaid, and the continuing cost of administering these contracts.

3.71 Part II of the Estimates for the Department of External Affairs indicates that the planned levels of disbursements through the Canada Account are $225 million for 1989/90 and $435 million for 1990/91. This represents a significant portion of the government's expenditures on international trade development.

3.72 **Our concerns.** As we stated in our 1989 Report, we have been unable to determine which arm of the government is responsible for providing information to Parliament that justifies expenditures and states the costs and benefits to Canadians of facilitating and developing export trade through the operations of the Canada Account. EDC has maintained that it is merely responsible for the administration of the Canada Account. It has not accepted responsibility for justifying the expenditures or for reporting on the overall net economic benefits to Canada arising from its activities. The Department of External Affairs, on the other hand, has not considered the Canada Account a departmental program for which departmental officials were responsible.

3.73 Arrangements for accountability to Parliament for the substantial expenditure of public moneys relating to the Canada Account need to be clearly established. As pointed out in our 1989 Report, Canada Account operations should be disclosed either as an activity of the Department of External Affairs (and therefore included in its Part III), as an activity of EDC in its summary corporate plan, or by some other appropriate means determined by the government. Without this information, certain loans to sovereign nations may escape proper parliamentary scrutiny.

3.74 In addition, in response to our 1989 Report, the Treasury Board issued a requirement in September 1989 for the submission of a report by 31 December 1989, identifying which organization has responsibility for managing the Canada Account and describing the decision-making procedures that would support this arrangement. The requirement had not been carried out at this writing.

3.75 Furthermore, the Treasury Board decision required the annual submission of a five-year plan for the Canada Account operations, in conjunction with EDC's annual corporate plan. These arrangements were to commence with EDC's 1990-94 corporate plan. At the writing of this report, this had not been done either.

Management's response: *Officials of the Department of External Affairs informed us that the Minister for International Trade intends to table a report on Canada Account operations in Parliament this fall. The report is being prepared by EDC in co-operation with the Department, and the Minister intends to table it as soon as it has been finalized. In the future, the Department expects that it will be tabled with EDC's Corporate Plan Summary.*

Officials of the Department of External Affairs also informed us that a recommendation on accountability to Parliament for the Canada Account, clarifying the respective roles of EDC and the Department, is being developed for ministerial approval.

Department of Finance

Canadian tax system can provide an unintended benefit to foreign tax systems

> *It is possible for a Canadian company to finance its U.S. business operations through the Netherlands and Netherlands Antilles and to "twice" deduct the interest costs for tax purposes. This could result in lost tax revenue for Canada and increased tax revenue for the foreign jurisdictions.*

3.76 The ingenuity of Canadian taxpayers has resulted in the development of an international financing structure that has come to be known as the "double dip". A description of a "double dip" follows.

3.77 A hypothetical Canadian corporation ("Canada Co.") with taxable income in Canada will invest $100 million in its U.S. subsidiary ("U.S. Co.") for use in its active business operations. As a result of that investment, U.S. Co. will earn $20 million taxable per year, ignoring any cost of financing the $100 million.

3.78 The transaction (which is not without costs and risks) would be structured as follows:

- Canada Co. borrows $100 million from a Canadian financial institution at an interest rate of 10.5 percent, and makes a $25 million capital contribution to U.S. Co.
- Canada Co. then incorporates a company ("N.V.") in the Netherlands Antilles, to be resident there and owned 100 percent by it. N.V. incorporates a wholly-owned subsidiary ("B.V.") in the Netherlands that will be resident there.
- Canada Co. makes a $75 million contribution of capital to N.V., which then makes an $11 million capital contribution and a $64 million interest-free loan to B.V.
- B.V. makes a $75 million loan to U.S. Co. at 11 percent interest.

3.79 Canada Co. would deduct from its income the $10.5 million in interest paid to the Canadian financial institution. At a 45 percent federal and provincial rate of tax, the cost to the Canadian and provincial governments in foregone tax revenue would be $4.725 million.

3.80 In computing its income for U.S. tax purposes, U.S. Co. would be entitled to deduct interest on the $75 million loan it had received from B.V. Under Dutch law, B.V. would be taxed as though it had paid about 10.75 percent interest on the $64 million interest-free loan from N.V. and that "notional" interest had been re-invested in it by N.V.

3.81 After all the U.S., Netherlands and Netherlands Antilles taxes had been paid, amounting to about $6 million, Canada Co. would net approximately $14 million of the $20 million earned by U.S. Co. -- $14 million on which it would have paid no Canadian income taxes.

3.82 This transaction would be attractive to Canada Co. because it could deduct interest "twice" -- thus the term "double dip".

Interest deductions would be as follows.

Canada Co. deducts interest it paid on $100 million bank loan	$10.50 million
U.S. Co. deducts interest it paid on $75 million loan from B.V. Co.	$ 8.25 million
B.V. Co. includes in income the interest it receives from U.S. Co.	($ 8.25 million)
B.V. Co. deducts "notional" interest on interest free loan from N.V. Co.	$ 6.88 million
Total interest deductions	$17.38 million
Actual interest paid on $100 million loan	$10.50 million
Excess interest deduction (equivalent to the "notional" interest deducted by B.V.)	$ 6.88 million

3.83 The net effect of such a transaction is that the Canadian and provincial governments would sustain a loss, in foregone revenue, of $4.725 million by allowing the deduction of the interest on the $100 million loan to Canada Co., while foreign governments would tax the $20 million of income generated by the loan, yielding them about $6 million in income taxes. Canada Co. would end up paying net taxes of $1.275 million ($6 million in foreign taxes, less the Canadian tax reduction of $4.725 million) or 13.42 per cent on the net $9.5 million earned ($20 million of income, less $10.5 million in interest).

3.84 The Minister of Finance has announced that his Department is completing a thorough review, begun in 1987, of the rules concerning the deductibility of interest and other financing costs.

***Management's response**: The deductibility of interest in Canada does not provide any benefit to foreign tax systems since the Canadian tax system has no influence nor any jurisdiction over a foreign tax system. The real issue in so-called "double dip" transactions is the appropriateness of the interest deduction in Canada. This should be determined by reference to the matching of that expense with related income and other considerations, such as international competitiveness, and not on the basis of a foreign country's tax system. This area has been the subject of extensive review with a view to arriving at a proper tax policy.*

Corporate income not taxed by Canada can earn federal and provincial tax credits for shareholders

> *Under Canadian tax law, it is possible for a company to earn income offshore that is not taxed on entering Canada, but that carries with it federal and provincial tax credits on dividends paid out to Canadian shareholders.*

3.85 Under Canadian tax law a Canadian company may receive active business income, earned by its qualified foreign affiliates, without paying Canadian tax. The foreign affiliate must be resident in one of the countries designated by the Income Tax Regulations (see Exhibit 3.1), most of which have tax treaties with Canada.

3.86 This can be illustrated by a hypothetical case in one of the designated countries, Barbados, whose significant tax incentives for international business companies can produce highly favourable Canadian tax advantages.

3.87 Assume that Barbados Co., incorporated and resident in Barbados, is an international business company and a wholly owned subsidiary of a Canadian company, Canada Co.

Exhibit 3.1

DESIGNATED COUNTRIES

Antigua *
Argentina *
Australia
Austria, Republic of
Bangladesh, People's Republic of
Barbados
Belgium
Belize *
Brazil, Federative Republic of

Cameroon, United Republic of

China, People's Republic of
Côte d'Ivoire, Republique de
Cyprus, Republic of

Denmark, Kingdom of
Dominica *
Dominican Republic
Egypt, Arab Republic of
Finland, Republic of
French Republic, European Departments, the Territorial Authority of Saint-Pierre and Miquelon and the following overseas Departments, namely
    Guadeloupe
    Guyane
    Martinique
    Réunion
  but not including overseas Territories
Germany, Federal Republic of
Guyana, Cooperative Republic of
India
Indonesia
Ireland
Israel, State of
Italy
Jamaica
Japan
Kenya
Korea, Republic of
Liberia #
Malaysia
Malta
Montserrat *
Morocco, Kingdom of
Netherlands, Kingdom of the, not including the Netherlands Antilles
New Zealand, not including the Cook Islands, Niue or Tokelaw

Norway, Kingdom of, not including Svalbard (including Bear Island), Jan Mayen and the Norwegian dependencies outside Europe
Pakistan, Islamic Republic of
Philippines, Republic of the
Portugal *
Romania, Socialist Republic of
Saint Kitts and Nevis-Anguilla *

Saint Lucia *

Saint Vincent *
Senegal, Republic of *
Singapore, Republic of
Spain
Sri Lanka, Democratic Socialist Republic of
Sweden
Switzerland
Thailand, Kingdom of
Trinidad and Tobago
Tunisia, Republic of
Union of Soviet Socialist Republics
United Kingdom of Great Britian and Northern Ireland
United States of America, not including its Territories
Zambia, Republic of

# Country where a treaty has been signed, but is not in force yet
* Countries without a treaty

3.88 Under Barbados income tax laws, Barbados Co.'s income would be subject to a 2.5 percent flat rate of tax. No withholding taxes are imposed by Barbados on dividends paid to non-residents. Nor are dividends subject to Canadian income tax.

3.89 Canada taxes corporations on their profits and taxes individuals on dividends they receive from those profits. To encourage investment by Canadians in Canada and to compensate individuals for some of the taxes that corporations have paid on their behalf, a dividend tax credit system is used. Since

Canada Co. would have paid no Canadian tax on its income from the profits of Barbados Co., presumably there would be no reason to compensate its Canadian shareholders. Nevertheless, under Canadian tax laws those shareholders would be entitled to a dividend tax credit.

3.90 A numerical analysis of the tax consequences of our hypothetical case follows.

Barbados Co. income	$ 1,000,000
Barbadian income taxes @ 2.5%	25,000
Dividend paid to Canada Co.	$ 975,000
Canadian corporate income taxes	0
Dividends to Canadian shareholders	$ 975,000
Canadian personal income taxes without tax credit	$ 470,000
Canadian personal income taxes with tax credit	$ 318,000

3.91 No Canadian corporate tax would be paid on the $975,000, but the Canadian shareholders would be entitled to dividend tax credits. Federal and provincial income taxes would total close to $318,000, compared to about $470,000 without the dividend tax credit. Effectively, the federal and provincial governments would provide a net tax credit of $152,000, when in fact no Canadian taxes would have been paid on the income earned offshore.

3.92 Such instances provide Canadian individuals with unintended benefits equal to a reduction in their income tax rate of about one third.

3.93 The Department of Finance has advised us that it intends to review the foreign affiliate tax rules.

Management's response: *The amount of tax credits claimed in cases such as those described is not likely to be of significant magnitude to warrant legislative action, which would inevitably result in complex and unadministrable rules designed to trace sources of corporate earnings through numerous levels of corporations. As well, the note ignores the dual purpose of the dividend tax credit - the recognition of underlying corporate tax to prevent double taxation on essentially the same income and the inducement to invest in shares of Canadian companies. While it is not intended that dividend tax credits provide perfect integration, a major tax policy objective is to encourage investment in the shares of Canadian corporations.*

Interest cost due to delay in authority to tax

> *The delay between the date of effect and the legal due date of increases in commodity taxes can result in an interest cost to the Crown.*

3.94 When the Minister of Finance presents a budget to Parliament, any announced tax increases usually take effect at midnight the same day.

3.95 For example, the following excise levies and taxes announced in the 27 April 1989 budget were to take effect on 28 April.

Excise Measures	Revenue Impact*
Increased excise levies on tobacco products:	
- cigarettes, by $4.00 per carton - cigars, by $4.00 per thousand; excise tax from 30% to 40%	$535 million
- manufactured tobacco, by $4.00 per 200 grams	$110 million
Increased excise tax on:	
- gasoline and aviation gasoline, by one cent per litre	$215 million
- leaded gasoline and aviation gasoline, by an additional one cent per litre	$ 35 million
	$895 million

* Revenue impact is for the period 28 April to 31 December 1989.

3.96 Companies began collecting the tax increase as soon as it came into effect on 28 April 1989. However, they were not obligated to remit to the Crown the increased tax they had collected, until the legislation received Royal Assent on 12 December 1989.

3.97 If the increased tax collected was not remitted until 12 December 1989, using a 12 percent rate of interest, the benefit to those collecting the taxes and the consequent loss to the Crown would have amounted to about $22 million.

3.98 We understand that more and more companies are exercising their option to retain the funds until Royal Assent.

The Department of Fisheries and Oceans

A specified purpose trust account for the Sea Lamprey Control Program was improperly maintained and incorrectly used to avoid lapsing funds at year-end

The Department of Fisheries and Oceans carries out sea lamprey control work on behalf of the Great Lakes Fishery Commission. The Department had improperly transferred budgetary appropriations into a non-budgetary specified purpose trust account, for part of its share of the cost of this work. In addition, the Department incorrectly used the account by transferring an additional $118,000 of its own operating funds into it to avoid lapsing this money. The Department did not follow the terms of the memoranda of agreement with the Commission by failing to turn over surplus operating funds on an annual basis as agreed.

3.99 The Great Lakes Fishery Commission was established by the Great Lakes Fisheries Convention Act between Canada and the United States in 1954. The Commission implements a program for the purpose of eradicating or minimizing sea lamprey populations in the Great Lakes. On behalf of the Great Lakes Fishery Commission, the Department of Fisheries and Oceans is responsible for sea lamprey control in the Canadian waters of the Great Lakes. Each year, the Commission enters into a memorandum of agreement with the Department, for the United States fiscal year from 1 October to 30 September, to conduct sea lamprey control work in Canada. The 1988/89 memorandum laid out a program of lamprey control and stated that the Government of Canada would appropriate $2.5 million to cover the costs of that year's work.

3.100 The Department placed part of each year's appropriations for Commission work in a specified purpose trust account, which it administered. Specified purpose trust accounts are to be maintained only for funds received from outside parties. From 1987 the Department incorrectly placed funds directly from its own budgets into a non-budgetary, specified purpose trust account. The Department changed this specified purpose trust account to an "other specified purpose" account in May 1990. A 1989 policy by the Comptroller General required departments to review and modify existing specified purpose accounts, to ensure financial control and accountability. As a result of this review, the Receiver General and the Comptroller General have concluded that any specified purpose account is not appropriate in this case. The specific conditions in the government's policy, under which a transfer of appropriations to a specified purpose account is permissable, were not met.

3.101 The Department incorrectly used the trust account by transferring additional appropriations into it to avoid lapsing the money at year-end. In 1988/89, an additional $118,000 was transferred into the account. These funds were transferred into the account at the end of the 1988/89 fiscal year and carried over into the next year to avoid lapsing at year-end. In 1989/90, $95,000 of this amount was transferred back from the account to departmental appropriations, and the balance of $23,000 was left in the account. Of the $95,000, $27,000 was spent, and the remaining $68,000 was transferred back into the account and carried over the 1989/90 year-end, which again resulted in funds not being lapsed.

3.102 The Department has not followed the memoranda of agreement signed in 1986/87 and 1987/88. Each agreement stated that any unexpended operational funds remaining at the end of the period would be refunded to the Commission. The Commission has formally requested that approximately $27,000 be turned over for 1986/87 and $51,000 for 1987/88. The Department has not returned these funds on an annual basis as required by the agreement. A settlement has now been reached between the Commission and the Department. However, the accounting provided to the Commission by the Department did not include the additional $118,000 transferred into the trust account. The Commission has agreed to accept only a part of the funds requested to allow the Department to credit the remainder against expenditures made above those specified in the memorandum of agreement.

***Management's response**: The Department has agreed to discontinue use of the account. In the interim, the Department was permitted to temporarily maintain an "other specified purpose" account by the Receiver General, pending the results of the review by the Comptroller General. This review was requested because the Department had an opinion from the Department of Justice that supported the rationale for the account's continued existence.*

Department of Industry, Science and Technology

Program terms and conditions not respected in the special programs for the Laprade and Thetford-Mines regions

> *The Laprade Fund was established with the $200 million remaining when construction of a heavy water plant in the Laprade region of Quebec was stopped in 1978. In October 1986, the $87.3 million remaining in the fund was assigned to the Department of Regional Industrial Expansion. A special program for the Laprade region was established to contribute to economic development projects that create permanent jobs. An additional $8 million was allocated to a similar program for the Thetford-Mines region. We observed several instances where initial departmental analysis indicated that projects did not meet basic program eligibility criteria. These projects were later approved. We also observed cases where the level of financial support given to a project was more than departmental analysis identified as the amount necessary for the project to proceed. Little or no documented rationale was available to explain these decisions.*

3.103 The Laprade Fund was established with the $200 million remaining when construction of a heavy water plant in the Laprade region of Quebec was stopped in 1978. This fund was to compensate for the loss of existing and potential jobs in the region. Initially, it was to be used for investment projects in the energy sector. However, for a number of reasons, including the lack of sound projects in this sector, the fund was used mainly for community and municipal infrastructure projects.

3.104 In October 1986, the $87.3 million remaining in the fund was assigned to the Department of Regional Industrial Expansion (now known as the Department of Industry, Science and Technology). A special program for the Laprade region was established to contribute to economic development projects that would create permanent jobs. An additional $8 million was allocated to a similar program for the Thetford-Mines region.

3.105 The terms and conditions governing the operation of the programs were approved by Treasury Board on 30 April 1987. These terms and conditions set out the basic program criteria for eligibility of applications, which included the creation of permanent jobs, the need for public funding, the provision of economic benefits for the region and Canada, commercial viability, and the absence of major contractual commitment prior to receipt of the request for assistance. The terms and conditions also identified the industry sectors and activities eligible for assistance, the types of projects eligible within these sectors, and the maximum assistance allowable. All project approval decisions were to be made by a committee of three ministers. One was the departmental minister, and the others represented electoral districts in the Laprade and Thetford-Mines regions. This was later revised to a minimum of two ministers - the departmental minister plus one of the others. Departmental staff were to analyse projects and make recommendations to the ministers.

3.106 The terms and conditions gave the ministers discretion to extend the program, to include other sectors, activities or types of projects, or to increase the level of assistance beyond the allowed maximum for specific projects. Projects still would have to meet the basic program eligibility criteria.

3.107 In 1989/90, payments totalling $21 million were made under these programs, and all funds had been committed as of 31 March 1990.

3.108 We examined a number of approved projects to determine whether they were consistent with the terms and conditions set for the programs. Our sample included 38 projects, representing 23 percent of the number and 53 percent of the dollar value of projects approved.

3.109 In some instances the ministers exercised their discretion, as permitted, to include another industry sector or to provide higher funding. However, we observed several other instances where projects were approved despite initial departmental analysis indicating that they did not meet basic program eligibility criteria. These included cases where:

- projects were approved despite indications that they would have a negative impact on other companies elsewhere in Quebec or Canada;
- the need for departmental assistance was questionable, because of the company's financial situation or because the project was nearly completed at the time of the application.

3.110 There were also cases where the level of support given was more than departmental analysis identified as the amount necessary for the project to proceed. These observations, on the application of eligibility criteria and on the level of funding, applied to more than one third of the projects we examined. In one other case, a project was split into two; as a result it received double the funding allowed.

3.111 In these instances, very little or no documented rationale was provided to explain why projects were funded or to justify the amount of support provided. Departmental staff explained that, once a decision was made, their responsibility was to implement it, not to develop a rationale after the fact.

3.112 The following are illustrations of some of the problems we observed:

- In April 1988, the Department received a request to support a complex of greenhouses to grow tomatoes year-round. Departmental analysis of the proposal indicated that this new capacity would displace production and have a negative impact on other producers in Quebec and in another province. This meant that the criterion of economic benefit for the region and Canada was in question. In August 1988, a contribution of $1,171,000, or 15 percent of eligible costs, was approved. We noted that in another greenhouse project the applicant received $1,138,000, or 15 percent of eligible costs, despite the same concern about the overall economic benefit for the region and Canada.
- In March 1987, the Department received a request for financial assistance to construct a clubhouse for a golf course. Construction had started in December 1986 and was slated for completion in early April 1987. To be eligible for assistance, program criteria required that no significant contractual commitment was to have been made before the date the request was received. Although this project was nearly completed when the request was received, a contribution of $148,500, or 16.5 percent of costs, was approved in January 1988. Reimbursement of costs was allowed, retroactive to 30 September 1986, even though this preceded the date of receipt of the request

and the 7 October 1986 decision by Cabinet to establish the Laprade Special Program.

- In June 1987, the Department received a request for support for completion of a business incubator complex (a business incubator is an enterprise that provides facilities and administrative and professional services to new companies, until they are able to operate autonomously). This project did not meet several eligibility criteria. The application indicated that it would not create any permanent jobs. Support for incubators themselves was to be restricted to operating costs, and then only after Cabinet had approved a national policy on business incubators. Because the project was 41 percent complete at the time of application, significant contractual commitments had been entered into by the applicant. In September 1988, a contribution of $977,887 was approved toward capital costs of $3,259,625. The documentation approving the project described it as an industrial motel, although the proposal had not changed. There was nothing on file to support this revised description or the fact that reimbursement of costs was allowed retroactive to 30 April 1987, a date prior to receipt of the request. Also, the national policy on incubators had not been approved.

- In June 1987, a company requested assistance for a recreation project involving construction of an arena housing two ice surfaces. The Department was concerned about the financial viability of the project and recommended that the feasibility of a two-phase approach be considered. In July 1987, a revised request was received for a first phase of the project, which was to involve an arena with one ice surface. In August 1987, a contribution of $250,000 was approved. This was the maximum allowed for a recreation project. On 9 October 1987, the contribution agreement signed by the company was received by the Department. The same day, the Department received a request for assistance from the company for the second phase of the project. This phase was described as enlarging the building and installing a second ice surface. Although construction of the first phase had not yet started, the Department treated the second request as a separate project, and another contribution of $250,000 was approved in December 1987. Project documentation given to the ministers did not disclose that no work had been done on the first phase of the project. In December 1987, a contract was let for construction of an arena with two ice surfaces, as originally requested in June 1987. In effect, this project received double the funding allowed at the time.

3.113 In these programs, the decisions to support projects were made by ministers rather than by departmental staff. We believe that this does not change the requirement that these spending decisions be adequately justified and conform with approved program criteria.

3.114 Although some discretion in applying criteria for regional development programs is reasonable, the approved terms and conditions governing the operations of programs should be respected or, if considered inappropriate, should be revised.

Inappropriate method of supporting an industrial project

In 1984/85, the Department of Regional Industrial Expansion gave a repayable contribution totalling $25 million to a petrochemical company, to cover 1983 and 1984 operating losses. The contribution agreement called for repayment to be made from future profits. An initial repayment of $5 million became due in 1989 when the company recorded profits of $107 million for 1988. Rather than collect the $5 million owing, repayment was deferred for five years to help finance a $218 million expansion project proposed by the company in 1989. This method of providing financial support is cause for serious concern, because the assistance provided is not visible to Parliament through the Estimates or Public Accounts. In effect, parliamentary scrutiny is by-passed.

3.115 Between 1983 and 1986, the Department of Regional Industrial Expansion, now the Department of Industry, Science and Technology, provided contributions of $95.8 million to a petrochemical company to offset operating losses and to re-structure its operations. The Department's initial contribution of $25 million was repayable. In addition, during the same period the Government of Quebec, which owned 50 percent of the company through a provincial Crown corporation, provided assistance of $129.4 million.

3.116 The Department's agreement with the company called for repayments to be made from future profits, based on the lesser of six percent of pre-tax profits for a particular year or $5 million per year. The company met this condition for repayment in 1988 when it had pre-tax profits of $107 million. As a result, $5 million was due to the federal government in 1989.

3.117 At that time, the company was seeking additional financial assistance for a $218 million expansion project. In May 1989, Cabinet decided to provide financial support to the project by deferring the collection of any amounts due for repayment during the fiscal years 1988 to 1992, inclusive. In October 1989, Treasury Board approved the amendments to the repayment requirements of the original contribution agreement. An order-in-council authorizing the changes was issued in November 1989. An amount equivalent to simple interest of 10.5 percent would be charged to the end of 1992 on any repayments so deferred. Beginning in 1994, and based on 1993 profits, repayments would be limited to the lesser of six percent of pre-tax profits or $5 million per year.

3.118 The revised repayment schedule extends to at least the year 2000, with no amounts equivalent to interest being charged after 1992. We calculated that these terms result in an undisclosed subsidy to the company from the federal government of over $5 million in 1989 dollars.

3.119 This method of providing financial support to a company is cause for serious concern because the assistance is not visible to Parliament through the Estimates or Public Accounts. In effect, Parliament is by-passed. Normal departmental practice is to provide financial support for a project through a direct contribution which is recorded as an expenditure against a vote approved by Parliament. Any money owing from a previous project is repaid to the Consolidated Revenue Fund. In this way both transactions are recorded and open to scrutiny by Parliament.

3.120 Repayable contributions are widely used as a means of providing financial assistance to companies by the Department of Industry, Science and Technology. When money owed from these contributions is not collected in order to fund other industrial assistance projects, a substantial erosion of Parliament's ability to scrutinize the use of public funds occurs.

Continuing problems in the management of repayable contributions

The Department of Industry, Science and Technology approved approximately $475 million in repayable contributions between 1983 and 1989, for projects under the Industrial and Regional Development Program. We examined the Department's information on repayable contributions under this program and its procedures for ensuring that repayments are made. We found a number of problems in the management of these repayable contributions.

3.121 The Department of Industry, Science and Technology approved approximately $475 million in repayable contributions between 1983 and 1989 for projects under the Industrial and Regional Development Program. Two main types of repayable contributions were used. One called for repayment of fixed amounts on dates specified in a schedule. The other called for conditional repayment, usually based on a percentage of sales. For this type of contribution there is a schedule of dates showing when repayments become due from a company, if sales have taken place. These schedules are entered into the Department's information system for managing repayable contributions, when contribution agreements are signed.

3.122 We found a number of problems in this information system and in the procedures in place for ensuring that repayments due are recorded and paid as required.

- There were several errors in the total amounts shown as repayable.
- For many contributions with repayment conditional on sales, due dates were inaccurate or not all listed, or there were old due dates with no indication of company contact to follow-up on sales. This was the case for about half the contributions of this type that we examined.
- The fields showing amounts due and due dates for a contribution could be altered, with nothing in the information display for that contribution to indicate that a change had been made, and what had been changed.

3.123 We examined this area a year ago and reported our findings to departmental management. A number of steps were taken to deal with some of the problems we observed. The Department revised the system so that records could be deleted only at headquarters. Departmental policy was changed so that invoices would be sent 30 days prior to due dates, rather than 15, for companies whose contributions had fixed repayment schedules. The Department attempted to modify the system to identify discrepancies between the amounts shown as repayable for contributions and the amounts that actually should be repaid, but the information produced was too inaccurate for staff to be able to use it. Further changes are now being made to correct this problem.

3.124 The framework for managing repayable contributions needs examination by the Department to solve these and other problems. We believe that a higher priority needs to be given to the overall management of repayable contributions, to ensure that amounts owed are repaid when due.

Department of Transport (Canadian Coast Guard)

Mid-life modernization of CCGS Louis S. St. Laurent: A major Crown project without a demonstrated need and with escalating costs

The requirement for the mid-life modernization of this 21-year-old icebreaker was not justified on the basis of defined levels of service. The Coast Guard did not follow its own vessel modernization and acquisition strategy in proceeding with this project, and did not adequately define the statement of work and the costs at the outset.

3.125 **Background.** In our 1978 Report, we noted that the Department of Transport did not give due regard to economy in the planning and approval phase of the acquisition of two "R" Class icebreakers, which cost a total of $108 million. We noted that the proposal to acquire the icebreakers did not include a forecast of needs for icebreaking services, proposed levels of service, the size of fleet required to provide those levels of service, and the economic benefits that would result. We also noted that early capital cost estimates did not provide a good indication of the eventual cost.

3.126 In our 1983 Report, we noted that the lack of a defined level of service weakened the Coast Guard's ability to plan and control its activities, including determining the number of ships it required. We also noted that after nine years and two extended deadlines, the Department had yet to meet the 1974 Treasury Board requirement to define its levels of service. We further noted that when Cabinet approved Coast Guard's Fleet Capital Investment Plan (FCIP) in principle late in 1979, it did so subject to the Coast Guard specifying levels of service before the end of 1981. The Department did not meet that deadline and has not yet specified its levels of service.

3.127 In our 1989 Report, we stated that, for the icebreaking program, the Coast Guard did not know the extent to which its existing fleet met or exceeded program requirements, and that, in spite of this lack of information and analysis on requirements, the Coast Guard had spent approximately $686 million since our 1983 audit in acquiring or modernizing vessels capable of undertaking icebreaking missions.

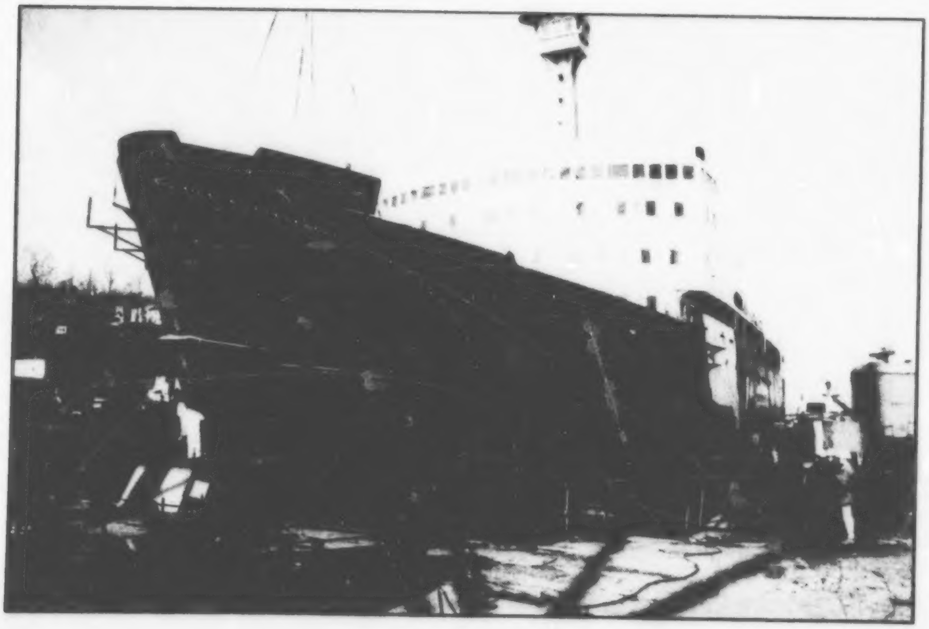
3.128 Canada's largest and most powerful icebreaker, the Type 1300 CCGS Louis S. St. Laurent (LSL), was built in 1969. The ship is costly to operate because of its large crew and the inefficiency of its propulsion system, which consumes far more fuel than other propulsion systems. Over the five-year period preceding her mid-life modernization, the vessel's utilization averaged under 30 percent (calculated on the basis of 365 days per year). The low utilization was attributable to its time in maintenance and to management decisions to utilize the vessel for primary arctic missions, and in southern waters only in cases of urgency or unavailability of other Coast Guard icebreakers.

3.129 In August 1988, the Coast Guard delivered the LSL to the shipyard for mid-life modernization.

3.130 We expected a project of this magnitude to have been justified by a thorough needs and options analysis based on defined levels of service. The term "level of service" refers to the amount and quality of a given service. In defining an appropriate level, the objective is to choose one that can be justified on the grounds of demand for the service, while taking into account the costs and benefits of providing it.

3.131 Our audit did not attempt to establish whether the vessel was needed in the Coast Guard fleet, but focussed on the Department's analysis leading to the decision to modernize the vessel and on subsequent events.

3.132 **Needs and options analysis.** The Coast Guard has stated that the FCIP constitutes its basic requirements/needs analysis for the mid-life modernization project. We found no defined levels of service for icebreaking or analysis of demand to justify the mid-life modernization of the LSL. Approval of the FCIP by Cabinet does not constitute approval for the mid-life modernization project listed in this capital program. This interpretation is consistent with Treasury Board Circular No. 1983-25, which states that a long-term capital plan is not used to seek approval for specific capital projects.



CCGS Louis S. St. Laurent during mid-life modernization (see paragraph 3.129).

3.133 According to the FCIP, it has been determined that in terms of cost effectiveness, the practical life of an icebreaker is approximately 30 years, provided that a mid-life modernization is carried out after 15 to 20 years. The Coast Guard stated that the mid-life modernization of the LSL was intended to extend the vessel's life for an additional 20 years, at which time the LSL will be approximately 45 years old.

3.134 Preliminary cost limitations. The guidelines provided in the FCIP are based on the fact that, on average, the capital required for mid-life modernization has been 20 percent of the unit replacement value. For the Type 1300 vessel, the FCIP estimated the unit replacement value at $250 million. The guidelines thus provided for $50 million in 1987/88 constant dollars for the LSL modernization. The Coast Guard planned an expenditure of $51 million for the project between 1987 and 1991.

3.135 Sole-source contract. An unsolicited proposal to modernize the LSL was submitted by Halifax-Dartmouth Industries Limited (HDIL) in October 1986. In reviewing this proposal, the Coast Guard stated the ceiling price for the contract would reach $71.2 million, whereas the Coast Guard's planned cost was $51 million. The Department stated that the cost difference was in keeping with the estimated 20 percent savings that have accrued historically when competitive bidding has been used instead of a sole-source contract. The Coast Guard recommended that the Crown proceed with a competitive tendering process for the mid-life modernization of the LSL. However, in June 1987, Cabinet directed that the modernization of the LSL be sole-sourced to HDIL as the prime contractor, for socio-economic reasons.

3.136 Increasing costs. Treasury Board granted effective project approval in July 1987 for a total estimated cost of $75.8 million, which provided for a $71 million contract limit for HDIL. In January 1988, a preliminary estimate provided by HDIL indicated a cost of $97 million. As a result, the Coast Guard reduced the statement of work to include only the core items. Consultants were hired to determine a reasonable cost for the project to be used in the negotiations with HDIL. In June 1988, revised funding was approved by Treasury Board at $95.5 million. This price included a contract ceiling of $82.3 million for HDIL. A number of items removed from the original modernization plan will be added to the separate refit budget, which now has a total estimated cost of $6.7 million. The Coast Guard states that the average annual refit budget for this vessel is $2 million.

3.137 Project schedule. In April 1990, the project was estimated by the Department to be about half-completed, based on work units in the shipyard. This meant that the project was five months behind schedule, which would affect the scheduled completion date of November 1990 unless compensating measures were taken by HDIL to expedite the work. However, serious problems have since arisen, because of steel deterioration, that threaten to delay the project by another two years and to increase the cost of the mid-life modernization. The additional cost has not been fully determined but could run as high as 25 percent of the total cost of mid-life modernization, and is subject to Treasury Board approval.

3.138 Steel deterioration. The extensive steel corrosion was identified on the LSL part way through the mid-life modernization. The affected areas included both the hull and internal steelwork, some of which had previously been inaccessible to inspection. Confirmation of the extent of deterioration in the vessel's steelwork was determined by the Coast Guard while carrying out an inspection similar to the 20-year survey conducted by the societies that set standards for all vessels. This inspection was started when the LSL entered drydock for the mid-life modernization and was still going on at the time of our audit.

3.139 This was not the Coast Guard's first indication of corrosion problems on the vessel. In 1984, an ultrasound survey of the steel showed varying degrees of corrosion, although not massive at the time. In 1987, prior to the modernization, a pre-mid-life condition survey was carried out but did not identify the extent of the problem.

3.140 The Coast Guard advised us that it is normal practice to replace corroded steel in any mid-life modernization. We expected that a provision for doing this would have been included as a major element of the estimated expense in this mid-life modernization project, because of:

- the Coast Guard's experience with previous mid-life modernizations and a recent life-extension project;
- the age of the vessel; and
- the inspections, condition surveys, and other indications of corrosion dating back to 1982.

However, no such provision appeared in the project statement of work.

3.141 **Conclusion.** After over 10 years and in spite of the conditions of Treasury Board approval, the Department has yet to define its levels of service for icebreaking. The Department's decision to complete a mid-life modernization of the LSL continues the pattern, identified in our previous audits, of major capital expenditures not based on a demonstrated need. The decision taken for the LSL mid-life modernization is inconsistent with the strategy in the FCIP related to vessel life and costs. As with the "R" Class icebreaker project, the early capital cost estimates for the mid-life modernization of the LSL did not provide a good indication of the eventual cost. The modernization began with a planned cost of $51 million and, according to the Coast Guard, could now reach around $125 million.

3.142 We will continue to monitor this project.

Management's response: *The Department advised us that, in its view, the decision to proceed with the modernization of the LSL followed the least-cost strategy. It stated that because of the unique capability of this vessel, it was decided to upgrade the machinery package and the bow. The Department stated that this improvement, which resulted in work much more extensive than a routine mid-life modernization, will make the vessel more effective and efficient and extend its life. The Department further stated that it is defining levels of service for icebreaking operations, and considers that these levels must take into account climatic and geographic considerations to be accurate. In the Department's opinion Canada requires, at a minimum, at least one 1300-class capability icebreaker to meet the obligations arising out of our claim to the arctic region. According to the Department, without this capability Canada would rank seventh among other nations having icebreaker capability, including West Germany, Japan and Argentina. The Department stated that such a situation would undermine Canada's credibility among polar nations.*

Department of Transport

Lester B. Pearson International Airport Terminal 1 Parking Garage: Inadequate safeguarding of a Crown asset and monitoring of public safety

Lack of action by the Department of Transport has contributed to increases in the estimated cost of restoration by up to $38 million, and there is no guarantee of how long the structure will remain safe without major repairs.

3.143 In 1982, the Department of Transport developed a comprehensive plan for airport parking at Lester B. Pearson International Airport. In addition, a 1982 engineering consultant report identified serious salt corrosion problems with the reinforced concrete of the Terminal 1 parking garage. The report indicated that with a less than thorough approach the garage would deteriorate faster than it could be repaired. Restoring the garage would cost about $12.3 million (1989 dollars), based on a unit cost of $91 per square metre, and would provide an estimated additional life of 15 to 20 years. The Department did not act on either the airport parking plan or the condition report on the garage.

3.144 Subsequent reports in 1984 and 1986 stressed the need for action on the garage. In 1988, six years after the deterioration had been detected, the Department awarded contracts for $5.6 million for incremental restoration in areas of the garage where public safety was in question. The Department stated that it would implement an upgraded inspection program to maintain the safety of the garage. The contractor later determined that the deterioration was so extensive that revisions to the contract specifications would be necessary, including some design changes and revision of certain unit prices and quantities. This would increase the cost by another $7 million. The Department chose instead to continue work up to the financial limits of the existing contract and to terminate the contract without the entire scope of the intended work having been delivered.

3.145 A 1989 engineering consultant report, accepted by the Department, stated that it was "impossible to even suggest how long the current structure can continue to be safe without major repairs." The report recommended two solutions. A short-term solution costing $40 million would extend the life of the facility an estimated 10 to 15 years; a long-term solution costing $51 million would lengthen its life by over 20 years. These solutions were based on construction costs ranging from $362 to $552 per square metre.

3.146 Deferring the decision to restore the parking garage has contributed to increased estimated costs to the Crown of from $28 million to $38 million and has impacted on the safety of the structure. At the time of our audit, there was no upgraded inspection program of the garage to monitor deterioration levels and there were no plans to restore the structure. The Department has informed us that it will make a decision after the next airport master plan is completed. Currently there is no completion deadline.

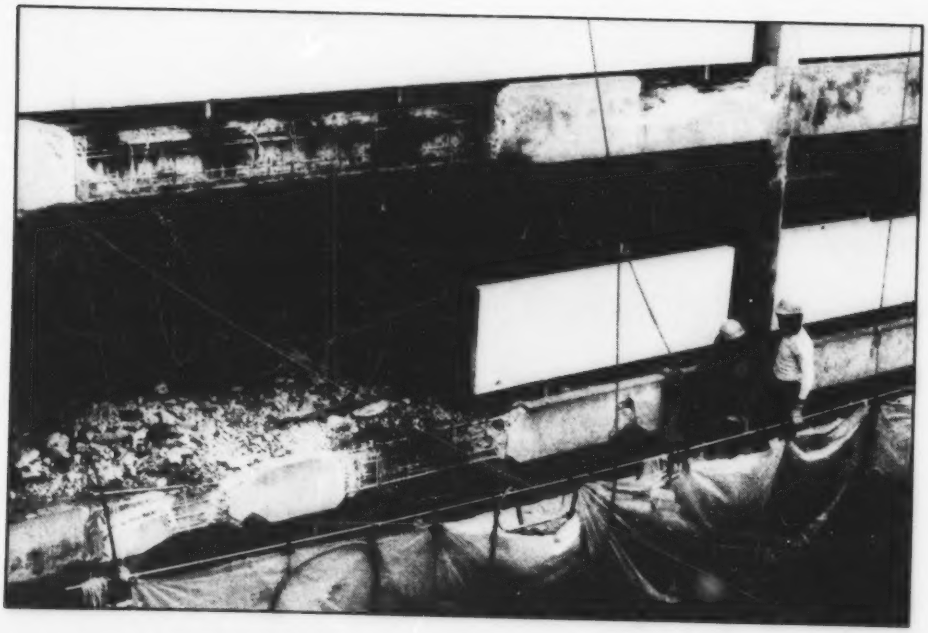
Management's response: *The Department has advised us that it has made repairs when required to ensure the continued safety of the structure. The Department has stated that its commitment to public safety was paramount. The Department has also stated that it is currently considering a rehabilitation plan.*

Department of Western Economic Diversification and Former Department of Regional Industrial Expansion

Approval for turbocharger project questionable, and contribution payments not adequately justified

> *An Alberta company received $99,900 in Industrial and Regional Development Program funding toward the development of an engine turbocharger. Total project costs of $312,600 included the purchase and rebuilding of a dragster for testing the turbocharger. Two departments were involved in this project: the Department of Regional Industrial Expansion (DRIE) during the approval and initial funding stages and the Department of Western Economic Diversification (DWED) for the final contribution payments. The initial assessment of this project by DRIE did not address some key issues. Final payments totalling $26,884 were made by DWED even though a report required by the agreement, containing technical results and benefits obtained, was not requested.*

3.147 In August 1985, under the Industrial and Regional Development Program (IRDP), the Department of Regional Industrial Expansion approved a contribution of $99,900 to an Alberta company for a project to develop an improved turbocharger for automobile engines. It was to be efficient throughout the entire performance range, and the application showed a target market in automotive wholesale and retail stores in Canada, the United States and Great Britain. DRIE's file contains no market analysis of the original submission or a further proposed development phase, and it is unclear whether the product was intended for general use or for the more limited speed market. Total project costs of $312,600 covered development of the turbocharger as well as the purchase and reconstruction of a dragster. DRIE made an initial payment of $73,016 in February 1987. All expenditures by the company on the project took place between 5 July 1985 and 28 February 1987.



No guarantee how long the structure will remain safe (see paragraph 3.145).

3.148 The statement of work in the agreement sets out technical objectives for the project. Even though the agreement required the applicant to submit reports satisfactory to the Minister, neither department translated the technical objectives into a reporting format, against which the results of the project could be measured.

3.149 DRIE had referred the project to the National Research Council for advice, but did not deal with the concerns expressed by the NRC. The NRC pointed out that retrofitting engines not designed for turbocharging could be dangerous and of limited value for general automotive use. It noted that if the project was aimed at special purpose vehicles, such as dragsters or stock racing cars, a different market estimation would be needed.

3.150 The prototype turbocharger was tested on racetracks in the United States in a dragster with a 488 cubic inch, or eight-litre displacement engine.

3.151 In August 1987, the government established the Department of Western Economic Diversification. This new department became responsible for the IRDP and some other existing programs previously administered by DRIE in the West. The turbocharger project was one of those transferred to DWED.

3.152 In January 1989, DWED made a second payment of $16,894. At that point, although the applicant had made all its project expenditures, it had not provided the Department with information specified in the monitoring section of the agreement. That section required progress reports every three months and a final report containing a summary of the technical results and a description of the benefits that had accrued. Only two progress reports were received, both in 1986. The applicant did not submit a final report and the Department requested no further technical results or benefits information.

3.153 DWED discovered in March 1989 that the prototype turbocharger had been destroyed in 1987. The contribution agreement required the company to notify the Department in writing if the turbocharger were sold, leased or otherwise disposed of. This was not done. Nonetheless, in March 1989 DWED made the final payment of $9,990.

3.154 In our view, the payments to the company were not adequately justified.

4

Follow-up of Recommendations in Previous Reports

Follow-up of Recommendations in Previous Reports

Main Points

4.1 The follow-up chapter reports on actions taken by departments and agencies in response to our past observations and recommendations. In some cases, considerable progress has been made, while in others it continues to be slow.

4.2 **Information for Parliament** - For the 1990 91 Part III of the Estimates, the Office of the Comptroller General issued specific suggestions and guidelines covering many of the areas we noted in our 1988 chapters. In some cases, our follow-up in departments and agencies found improvements, while in others, we found inadequacies (paragraphs 4.17 to 4.20).

4.3 **Department of Agriculture - Food Production and Inspection Branch** - Our review indicated that management has taken significant action on all of our recommendations. However, the Department must continue to marshall the resources and the sustained will to ensure full implementation of these recommendations (4.40 to 4.49).

4.4 **Department of Agriculture - Information for Parliament** - We have reviewed the systems and practices on which the Department of Agriculture relies in order to have a reasonable level of assurance that the Department's Part III is accurate, clear, consistent, and complete. We conclude that there are deficiencies in these systems and practices as currently carried out by the Department, that are of concern both to us and the Department (4.50 to 4.83).

4.5 **Canadian International Development Agency (CIDA)** - Overall progress in implementing our recommendations has been slow. We remain concerned about the continuing weaknesses in its contracting practices (4.84 to 4.103).

Table of Contents

Paragraph

Introduction 4.6

Information for Parliament: Audit of the Estimates Documents - 1988, Chapter 5

Background 4.17
Conclusion 4.18

Treasury Board Secretariat - Group Surgical Medical Insurance Plan - 1988, Chapter 6

Background 4.21
Conclusion 4.23

Department of Agriculture - Canadian Forestry Service - 1988, Chapter 7

Background 4.26
Conclusion 4.28
Observations 4.29
Forest Resource Development Agreements (4.29)
Research and Technical Services (4.32)

Department of Agriculture - Food Production and Inspection Branch - 1988, Chapter 8

Background 4.40
Scope 4.44
Conclusion 4.45

Department of Agriculture - Information for Parliament - Request from Public Accounts Committee - 1988, Chapter 8

Background 4.50
Scope 4.54
Steps Taken by the Department 4.56
Role of the OCG 4.62
Departmental Quality Assurance Procedures 4.66
Draft-by-draft scrutiny (4.66)
Document control procedures (4.67)
Other Matters Noted in our Review 4.73
Program evaluation results (4.73)
Completeness of the Part III (4.74)
Senior management sign-offs (4.76)
Senior financial officer representation (4.78)
Changes in the 1990/91 Part III (4.79)
Completeness of results information (4.80)
Conclusion 4.81

Table of Contents (cont'd)

Paragraph

Canadian International Development Agency - 1988, Chapter 9

Background 4.84
Conclusion 4.86
Observations 4.88
    Contracting practices continue to be weak (4.88)
    Aid Information System needs improvement (4.98)
    Special Programs Branch's monitoring and funding practices are improving (4.100)
    Information for Parliament has improved (4.103)

Department of Indian Affairs and Northern Development - 1988, Chapter 14

Background 4.104
Conclusion 4.105
Observations 4.106
    Developing legislative mandate (4.106)
    Post-Secondary Education Assistance (4.108)
    Social Development (4.110)
    Funding arrangements with Indian bands (4.113)

Department of National Defence - 1988, Chapter 15

Background 4.116
Conclusion 4.118
Key Recommendations and Progress to Date 4.119
    Materiel Support (4.119)
        Combat supplies (4.119)
        Maintenance (4.123)
    Quality Assurance (4.128)
    The cost of holding inventory (4.129)
    Reporting to Parliament (4.131)
    Revenues (4.133)

Department of National Revenue, Taxation - Tax Collection - 1988, Chapter 17

Background 4.134
Conclusion 4.136
Scope 4.137
Observations 4.138
    Management and control of collections (4.138)
    Interest rate on unpaid taxes (4.143)
    Information for Parliament (4.144)

Table of Contents (cont'd)

Paragraph

Suspected Fraud Reporting Procedures - 1988, Chapter 19

- Background 4.145
- Government Response 4.149
- Conclusion 4.152

Multiple Source Subsidies - 1988, Chapter 19

- Background 4.154
- Conclusion 4.155

Department of National Health and Welfare - 1987, Chapter 12

- Background 4.156
- Conclusion 4.157
- Observations 4.158
  - Drug Regulation (4.159)
  - Indian and Northern Health Services (4.164)
  - Health Insurance (4.175)
  - Fitness Canada (4.178)
  - Financial Management and Control Study (4.180)

Follow-up of Recommendations in Previous Reports

Introduction

4.6 This is the sixth year that we have reported on the status of action taken by departments and agencies in response to the Office's observations and recommendations.

4.7 We have found that progress in corrective action varies from department to department. In most cases, departments have taken some action to implement recommendations, but the overall progress still tends to be slow. This means that we will conduct further follow-up work in a number of areas until we are satisfied that the deficiencies originally noted have been adequately addressed.

4.8 With respect to Information for Parliament, our follow-up found both improvements and inadequacies in departments and agencies. The Office of the Comptroller General issued specific suggestions and guidelines for the preparation of the 1990/91 Part III of the Estimates.

4.9 We have reviewed the systems and practices on which the Department of Agriculture relies in order to have a reasonable level of assurance that the Department's Part III is accurate, clear, consistent, and complete. We conclude that there are deficiencies in these systems and practices as currently carried out by the Department, that are of concern both to us and the Department.

4.10 We noted that there are continuing weaknesses in contracting practices at CIDA. As a result, the risk remains high that projects will not meet the objectives of CIDA or recipient countries.

4.11 Follow-up work generally occurs two years after the original audit chapter appears in the annual Report. This year, however, follow-up work on five audits was deferred.

4.12 The Department of Supply and Services--Suppliers Audit follow-up was deferred to coincide with our value-for-money audit of contracting, which will be reported in 1991.

4.13 The Energy, Mines and Resources follow-up was deferred until 1991.

4.14 The Department of Finance--Management of the Borrowing Program Audit will be followed up in 1991 at the same time as the follow-up of our 1989 chapter on Foreign Exchange Operations.

4.15 Considerations of timeliness and practicality resulted in deferral of the Fisheries and Oceans follow-up until 1991.

4.16 The follow-up of the 1988 chapter on the Unemployment Insurance Account has been deferred to next year to combine it with the follow-up of the 1989 chapter on the same subject. Thus, both chapters will be the subject of a follow-up during 1990/91 and included in the 1991 Report.

Information for Parliament: Audit of the Estimates Documents - 1988, Chapter 5

Background

4.17 In Chapter 5 of the 1988 Report, we reported on our audit of the Estimates documents. The main focus was on the usefulness of the Part IIIs - the departmental expenditure plans. Our analysis revealed many areas where change was needed. For example we suggested that the Part IIIs could become more understandable if the summary sections contained more useful information, specifically about program performance. We also suggested that the Part IIIs could become more accessible if indexes on subject matters were included, as well as references to other sources of information. Finally we commented on their lack of clarity and recommended that a simpler and clearer writing style be used.

Conclusion

4.18 For the 1990-91 Part IIIs, the Office of the Comptroller General (OCG) issued specific suggestions and guidelines covering many of the areas we noted. These included guidelines on improving communications, on adding more information to guide readers to other material on the same subject, and on providing indexes that help readers find more information on specific subjects.

4.19 The OCG has informed us that many departments have complied with at least some of the guidelines. For example, it indicated that of the 87 Part IIIs produced this year, 38 departments included a topical index to help readers find information on specific subjects. In addition, 65 departments made considerable effort to improve their presentations through the use of such tools as computer generated graphics and desktop publishing. One department changed to a magazine format to improve the visual appearance of its Part III.

4.20 This year, we examined a number of Part III documents as part of our regular audit of departments and agencies. In some cases we found improvements, while in others we found inadequacies. In the future, we will continue to review the usefulness of these documents. We will do this using criteria based on our recommendations and on the guidelines of the OCG.

Treasury Board Secretariat - Group Surgical Medical Insurance Plan - 1988, Chapter 6

Background

4.21 In 1988 we audited the systems and procedures in place to administer the Group Surgical Medical Insurance Plan (GSMIP). We reviewed the processes for setting premium rates, determining expense charges by the insurer and calculating reserves under the Plan, as well as the related cash management practices of the insurer. In addition, we looked at the operations of the GSMIP claims office and audited a selected number of claims.

4.22 We identified a pressing need for a thorough review of existing financial arrangements with the insurer, for a close monitoring of the insurer's activities and for an examination of the premium-setting practices. We also recommended that adequate professional underwriting and actuarial expertise be used regularly in managing the Plan, and that periodic invitation of competitive bids be considered.

Conclusion

4.23 Treasury Board Secretariat, in consultation with the National Joint Council, has addressed all of our recommendations and has implemented several of them, while work is under way on others.

4.24 There are a few areas in claims operations where further action is required. Our follow-up audit indicated that, although several improvements to procedures have been made, the error rates in claim payment continue to be high. Another aspect that warrants further attention is the lack of internal audit coverage of claims submitted by government employees residing outside Canada, which account for approximately 11 percent of the claims processed. Also, the turnaround time for claims is still long and does not compare well with plans administered by other insurers.

4.25 In response to our recommendation on co-ordinating benefits where other insurance is in force, the insurer advised Treasury Board Secretariat that any rigorous follow-up of the cases where the question on the claim regarding the existence of such other insurance is not answered would not be cost-effective and would cause inconvenience to the claimants, although there has been no analysis of costs and benefits to the Plan. We are advised that Treasury Board Secretariat has recently instructed the insurer to carry out such an analysis.

Department of Agriculture - Canadian Forestry Service - 1988, Chapter 7

Background

4.26 The first value-for-money audit of the Canadian Forestry Service, carried out in 1988, concentrated on its two main activities: Forestry Development, and Research and Technical Services. The audit examined the management of the Forest Resource Development Agreements, including management controls, procedures employed to deliver the program and operating procedures. We also examined the management of Research and Technical Services.

4.27 The 1988 audit report made nine recommendations, several of which addressed more than one facet of an identified shortcoming.

Conclusion

4.28 We found in our follow-up work that satisfactory progress had been made in all the areas of concern addressed in our 1988 Report. We did note that in three areas progress had been somewhat slower than expected. Delays were found in the development of three areas: new data collection standards for new forestry development agreements, an updated Operational Planning Framework, and implementation of the evaluation plan. These delays were incurred during the completion of the current round of Forest Resource Development Agreements, negotiations on new agreements and the development of the organization to support CFS's status as a department.

Observations

Forest Resource Development Agreements

4.29 Standards for reforestation and forest management. We had recommended that CFS should clearly establish its acceptance of existing standards for reforestation and intensive forest management, funded by the forest resource development agreements. Principles that form the basis for continuing federal funding have been developed, and incorporated into the two agreements negotiated subsequent to our audit.

4.30 Procedures to ensure that guidelines are followed. In our 1988 Report we noted that although each agreement contained guidelines for carrying out various types of forest development work, there was no adequate mechanism to ensure that the guidelines were followed. In response, the Department undertook a study of the methods and procedures in place under each of the agreements to monitor and inspect development work done. As no further agreements are currently under negotiation, no further work has been done in attempting to develop national procedures.

4.31 National system for data collection. We noted in 1988 that agreements did not contain clear standards for data collection. CFS has addressed this issue on three fronts. First, a national forestry data bank is under development, in co-operation with the provinces. Preliminary negotiations have been completed and a proposal prepared for further work. Second, a review of data needs and options for inclusion in new agreements has been completed. Further work in this area has been put on hold until negotiations of new agreements resume. Third, CFS is continuing to develop timber supply simulation models.

Research and Technical Services

4.32 Research priorities. We had recommended that CFS should implement guidelines to assist both managers and scientific staff in clearly defining the specific client groups to whom it provides research services. New research planning guidelines have since been completed and published; project work plan documents now include sections related to client agencies.

4.33 **Project selection and review.** We had also recommended that CFS periodically review all research activities for their application to forestry management practices, value to industry and contribution to CFS program objectives. The CFS now has a strengthened research program assessment process described in new research planning guidelines.

4.34 **Use and dissemination of research findings.** Our third recommendation concerning research was that CFS should review its information management role with particular emphasis on the use and dissemination of research findings. CFS has responded by strengthening its links with clients through more joint projects, expanding participation in technical conferences and meetings, establishment of a research partnership process with universities and industry and an expanded role for its advisory council. Work is continuing in the strengthening of links between researchers and client groups.

4.35 **Research planning.** We recommended in 1988 that CFS should incorporate program performance and cost/benefit analyses of its research efforts in future planning decisions. CFS responded by altering work plans to incorporate cost information and performance against goals and needs. It also intends to incorporate performance data in an updated Operational Plan Framework, pending approval of the departmental Strategic Plan.

4.36 **Financial management and control.** Noting that the CFS did not have financial or administrative data reflecting the cumulative costs of specific research projects, we had recommended that CFS should record and maintain more complete current and cumulative cost information for each research project, and assess the potential cost benefits of research devoted to specific lines of inquiry. In response, CFS has reviewed and modified cost accounting practices, and revised work-planning documents to more clearly state objectives, outputs and expected benefits and to incorporate economic dimensions in program and work plans. As well, CFS is about to produce an Annual Report on Accomplishments in Research showing achievements, progress, publications and an assessment of their benefits and significance.

4.37 **Human resource management.** We had recommended that CFS should establish and implement appropriate procedures for the management of human resources at headquarters and all regional centres, since the planning process in place in 1988 did not identify the quantities and types of skills required to meet program objectives. CFS has since developed procedures within the framework of its planning system for the management of human resources. A multi-year human resource plan has been approved by Forestry Canada. As well, appropriate computer systems have been developed and put in place to assist in human resource planning.

4.38 **Effectiveness management.** We noted in 1988 that Agriculture Canada had been insufficiently active in the evaluation of CFS programs, and recommended that CFS establish clearly defined procedures for measuring and reporting on the effectiveness of its activities. Subsequent to our audit, a national evaluation of Forestry Development activities was completed. As well, the Research Program Assessment process began. The change to departmental status led to the establishment of an Audit and Evaluation Directorate. This organization has been put in place and an evaluation policy and plan have been finalized and are now being implemented.

4.39 **Information to Parliament.** In 1988, we reviewed Part III of the Estimates for 1987/88 and recommended that CFS reduce the use of jargon, provide technical details in supplementary material, present information on the overall status of the forestry sector, provide statements of achievement of objectives and provide consistent and accurate information from year to year. CFS changed its presentation of Part III to address our concerns.

These changes included a simplified presentation, explanations of technical details, information on overall status of the forestry sector, a report on achievement versus objectives and more graphics. In addition, the presentation of information for 88/89, 89/90 and 90/91 has been consistent.

Department of Agriculture - Food Production and Inspection Branch - 1988, Chapter 8

Background

4.40 Our 1988 audit of the Food Production and Inspection Branch in the Department of Agriculture concentrated on program delivery in Food Safety and Inspection, Animal Health and Plant Health - specifically plants, forest products and pesticides.

4.41 The report made a number of recommendations in all these areas, and included observations and a recommendation on the information provided by the Branch to Parliament. It was considered at two meetings of the Public Accounts Committee (PAC) on 13 and 20 June 1989 and formed the basis of the Committee's Third Report to the House of Commons, dated 10 October 1989.

4.42 In its report the committee recommended that the government give early consideration to introducing amendments to the Plant Quarantine and Animal Disease and Protection Acts. By 30 June 1990 both pieces of legislation had received Royal Assent.

4.43 The PAC also recommended that for 1990/91 and thereafter, the Department improve the information contained in Part III of the Estimates, and that the Department and the Comptroller General provide written progress reports to the Committee and the Auditor General by 31 March 1990. The Auditor General was requested to then assess these responses and report the findings to the PAC. This is reported at paragraphs 4.50 to 4.83.

Scope

4.44 Our follow-up was based on a review and analysis of the information contained in the four progress reports on our 1988 recommendations, submitted by the Branch to us and to the PAC from 24 February 1989 to 1 February 1990, and of additional documentary evidence provided by the Department at our request. The final progress report was confirmed by the Deputy Minister as the Department's official statement of progress. Our testing was restricted to a review of documents provided to support the assertions in the progress reports. These were reviewed to determine if there was any reason to question management's representations.

Conclusion

4.45 In our chapter we made 18 recommendations, including the recommendation with respect to Agriculture Canada's Part III which is dealt with elsewhere in this Report. The Department responded very quickly to initiate action in response to our recommendations. Our review of management's representations on progress in implementing these recommendations leads to the summary conclusion that management has taken significant action on all of them.

4.46 In general, the rate of progress has been consistent with that anticipated in management's original response as published in our 1988 Report, or as stated in the 1 February 1990 progress report given to the Public Accounts Committee. In some instances progress has not been as rapid as originally had been anticipated, for a variety of reasons. In one significant instance relating to our recommendations in the area of pesticides (8.62, 8.63, 8.64, 8.65) the implementation of the recommendations has been superseded by a ministerial task force on pesticides which, it is anticipated, will take matters beyond the scope of our original recommendations. The preliminary report of the task force was presented in July 1990.

4.47 In the case of our recommendation relating to the agreement with Customs and Excise to ensure that it is appropriately enforcing import procedures (8.86), action has been taken on the memorandum itself, on developing additional training, but no action has been taken on the development of a performance measurement system to give Agriculture Canada assurance of Customs and Excise's effectiveness in carrying out its delegated responsibility.

4.48 One of the challenges faced by departmental management will be to continue to marshall the resources and the sustained will necessary to see the full implementation of all these recommendations through to a successful conclusion.

4.49 In our review of the progress reports supplied by the Department, and the documentation accompanying them, we found no evidence to suggest that departmental progress is materially at variance with the progress reports.

Department of Agriculture - Information for Parliament - Request from Public Accounts Committee - 1988, Chapter 8

Background

4.50 Part III of the Estimates is intended to improve the government's accountability to Parliament by providing more and better information on government programs, thereby permitting parliamentarians to carry out more effectively their reviews of expenditures. To that end, the Part IIIs are intended to provide sufficient information to assist Members of Parliament in understanding and assessing planned and actual program performance, in terms of results and related resources.

4.51 After considering our 1988 Report on the Department of Agriculture (Chapter 8), the Standing Committee on Public Accounts (PAC) recommended in a report to the House on 26 October 1989 that "the Department ensure that the 1990/91 and future Part IIIs of the Estimates contain accurate, clear, consistent and complete information, notably in relation to resource allocation and program results" [recommendation 11(a)]. In addition, the Committee requested that the Department provide by 31 March 1990 a progress report regarding improvements made in the Part III and that the Comptroller General respond to the Committee's and the Auditor General's concerns with regards to Part III of the Estimates on the same date.

4.52 Finally, the Committee asked that the Auditor General assess and report on the responses of both the Department and the Comptroller General to the Committee's recommendations.

4.53 The recommendations came when the Department and OCG were well into the process of preparing the 1990/91 Part III. They made some changes and worked to develop responses to the Committee. Both responses appear at the end of this chapter.

Scope

4.54 Both the Department of Agriculture and the Office of the Comptroller General (OCG) have systems and controls in place which they believe ensure that their respective responsibilities are fulfilled in producing Part III Estimate documents that are accurate, clear, consistent and complete. To respond to the Committee's request to this Office, we identified the specific systems and controls that each has in place. We reviewed the documentation relating to the application of these systems and controls to the production of Department of Agriculture's 1990/91 Part III. We carried out tests in certain areas to assess the extent to which these controls and systems have functioned to provide reasonable assurance that the Part III is accurate, clear, consistent and complete.

4.55 We also commented on other matters raised in the Department's and the Comptroller

General's letters -- such as the existence of additions made to the 1990/91 Part III -- to the extent that the results of our examination of the systems and controls and our substantive testing of them allowed us to do so. However, we did not attempt to assess the overall quality of the Department of Agriculture's Part III for 1990/91 in either an absolute or relative sense. Accordingly, to infer conclusions based on this report about the overall quality of the 1990/91 Part III is unwarranted.

Steps Taken by the Department

4.56 The preparation of the Part III is normally undertaken between September and January each year. The Department has indicated that the PAC recommendations, received in late October, came in the middle of a very tightly managed process, and that officials were unable to respond fully in the timeframe allowed. Notwithstanding this, the Department has committed itself to further improvements.

4.57 In its letter responding to the PAC, the Department referred to three steps being taken to provide quality assurance:

- additional emphasis was placed on quality control at each stage of the development of the Part III document;
- the information contained in each draft document was scrutinized at the branch and corporate levels for accuracy, clarity, consistency, and completeness; and
- further assurance was taken from senior management representations on the overall quality and integrity of the document.

4.58 The Department of Agriculture is large, complex and varied. It delivers a wide variety of programs, sometimes related to each other only in their application to agriculture. These characteristics of the Department are reflected in its Part III document and its preparation.

4.59 Because of the links to the Main Estimates and the accounting processes of the Department, the preparation of the Part III is a fundamental responsibility of the Senior Financial Officer (SFO). The SFO is responsible for overseeing the overall preparation of the document and for performing various checks during its preparation and presentation. However, because of the size and complexity of the Department, a large part of the preparation of the Part III is done in line branches. Senior line branch officials are primarily responsible for the performance and other results statements included in the document. The branches prepare segments of the document for their respective programs in response to functional direction and advice from the SFO.

4.60 Because the PAC recommendations were received in late October, much of the documentation providing functional advice and guidance to the various branches on preparing the sections of the Part III had already been sent. We expected to find that, upon receiving the PAC recommendations, the SFO directorate would have provided an explicit acknowledgement of the concerns raised by the PAC, and explicit direction to the branches on the steps to be taken by them, and by the SFO, to ensure that the concerns raised by the PAC were addressed. A formal acknowledgement of the PAC concerns was issued to all branch heads on 22 December 1989, then late in the process, with a request that branch heads pay particular attention to the PAC's concerns with respect to completeness, accuracy and clarity when the drafts of the branches' narratives were reviewed and approved. According to the Department, special guidance was given to one branch -- Food Production and Inspection. We found no further evidence of any additional procedures being put in place at the corporate level to address the PAC recommendations. Several of the people involved in the preparation of the Part III in the line branches whom we interviewed stated that they were unaware of the PAC's concerns.

4.61 We should note that ongoing direction in both the Department and the Office of the Comptroller General has always been dedicated to the production of Part IIIs that they believe are accurate, clear, consistent and complete, as directed by the Committee. There is evidence to indicate that staff in the Department and the OCG are working towards these objectives.

Role of the OCG

4.62 The OCG is responsible for providing functional guidance to departments in a variety of ways. At the most general level, it is given through its "Guide to the Preparation of Part III of the Estimates" and through call letters. Specific monitoring of departments throughout the process takes the form of a review of successive key drafts. The OCG provides regular feedback to departments in the form of a review of the document against the standards contained in the Guide and suggests areas for improvement, including drawing attention to deficiencies identified by Parliament and the Auditor General. We found ample evidence that this had been done for the 1990/91 Part IIIs just as it had in previous years. The OCG does not normally audit the internal departmental procedures and processes for the preparation of Part IIIs. However, it has issued methodology to assist departments in the internal audit of the Part IIIs.

4.63 In its response to the PAC, the Department:

- referred to the three steps being taken to provide quality assurance in its Part III, as previously outlined in paragraph 4.57;
- identified improvements made to date; and
- acknowledged the need for further improvements to its Part III document.

4.64 The Comptroller General, in his letter to the PAC, stated that he had reviewed the Department's response and ".... in general, find it to be one in which I can concur." He then went on to state that the Department acknowledged the need for further improvements to the document and the processes that produce it, and that a "Post-Tabling" review would be conducted within the next few months.

4.65 We found that the OCG had worked with the Department to assist in drafting its response to the PAC, and that an action plan was developed to address PAC concerns. Our review of OCG files and discussions with officials confirmed that the OCG concurrence with the steps being taken to provide quality assurance was based on the fact that the action planned by the Department was appropriate. The OCG did not audit these procedures as part of its concurrence. However, the Comptroller General's letter could be read as giving overall, albeit guarded, assurance on all aspects of the Department's response. As a result of our audit work, we have identified a number of concerns with the Department's quality assurance procedures referred to in the first rubric in paragraph 4.63. In the circumstances, the assurance being given to the PAC by the OCG in its letter of response ought to have been explicitly qualified to indicate the limited basis on which it was given.

Departmental Quality Assurance Procedures

Draft-by-draft scrutiny

4.66 The Department believes that the review of the branch drafts by the SFO directorate is one of the major controls in the preparation of its Part IIIs. It has indicated that significant emphasis was placed on these reviews, particularly in light of the PAC concerns. To this end it has informed us that it devotes significant resources to this process. According to the Department, staff challenge the narrative and financial information to assure its accuracy, clarity, completeness and consistency with the Public Accounts, Main and Supplementary Estimates, and a variety of other government and internal documents. These reviews are also intended to focus on readability. We found ample evidence, in our review of the Department's files, that staff in the SFO's directorate did indeed review and comment on the successive drafts of segments of the Part III provided by the other branches.

Document control procedures

4.67 In addition to draft-by-draft scrutiny, we expected to find other types of systematic activity to ensure that the Committee's concerns were met. In particular, we expected the Department to have systematic procedures in place to:

- verify all figures referring to prior years' activities against the Public Accounts, prior years' Part IIIs and, where appropriate, other authoritative documents;
- verify that both the English and French versions were identical with respect to text, tables and figures;
- carry out both a technical and a copy edit of the text to ensure that the writing was simple and clear; and
- ensure that branch heads have evidence that performance claims made by them are supported by appropriate and sufficient evidence.

4.68 **Verifying figures.** In discussion with departmental staff, we were told that rigorous "proofing" to verify all numbers against authoritative sources was carried out. We were informed that, although the work was done, most documentation was destroyed once the job was complete, leaving little evidence in the file to support the "proofing" claims; and that this work had been subject to supervisory review. In carrying out our tests, we encountered several instances of inconsistencies and errors in the Part III document. Additionally, we noted some variances between the amounts in the 1990/91 Part III and those in the Public Accounts. Examples of anomalies which may have been noted, had a more thorough verification of the Part III to other authoritative sources been carried out, include the presentation of the operating results for the Agricultural Stabilization and Products Boards (ASB and APB, respectively). On page 4-85, a statement of operations for the ASB is presented. As is apparent from the Board's annual report, this statement presents the Board's use of parliamentary appropriations rather than its operations. Similar comments apply to the figure for APB on page 4-87. In our view, the audited financial statements presented in the APB's annual report present much more meaningful information, particularly on the results of operations, than that presented on page 4-87 of the Part III. Further, in APB's presentation several comparative figures are in error.

4.69 **Proofreading the French and English versions to ensure consistency.** In our review of the French version of the 1990/91 Part III, we found over 80 errors, omissions or inconsistencies with the English version. In discussing these matters with the staff responsible, we were told that the French translation had arrived so late in the process that, given the magnitude of the job, no significant editing or "cross-proofing" was possible.

4.70 **Technical and copy edits.** Departmental policy places the main responsibility for copy editing and for ensuring clarity on the branches. In addition to this, technical editing is done at the corporate level. However, weaknesses in the technical edit are evidenced by the number of errors we noted in our review of both the English and French versions.

4.71 **Challenge and verification of performance claims.** In the Department of Agriculture, branches are primarily responsible for providing verifiable and properly supported performance claim information. However, we could find little evidence in the documentation reviewed that performance claims included in the Part III were checked to ensure that they were supported by appropriate and sufficient evidence. When we asked for the evidence supporting some claims of performance, the evidence provided by the end of our review was incomplete.

4.72 In a couple of instances the evidence that was provided suggested that the performance claims, as presented, were misleading. For example, on page 4-57, a contribution of $565,000 is discussed and the claim is made that "studies" indicate a six-dollar return for each dollar invested in this type of activity. What is not revealed is that the study is singular, that it was done in the United States in 1966, and that the figure of six dollars is not the one stated in the original study. Another example is on page 3-11. A table is presented which is intended to report on the Management and Administration Program's performance in terms of the total operating expenditures of the programs it serves. While measuring the effectiveness of this Program is difficult, in our view the information presented is not an appropriate measure of effectiveness. Further, as noted in the Part III, there are large management and administration expenditures in other parts of the Department that are not counted in the table

Other Matters Noted in our Review

Program evaluation results

4.73 In addition to the presentation of specific performance indicators, the Department also presents selected findings from its program evaluation studies. However, we are concerned that some are not presented in a balanced manner. In particular, we note two concerns. First, in some instances, negative evaluation findings -- those suggesting a need for a program change of direction or improvement -- are not adequately reported, thereby leaving a more favourable impression of program performance than warranted by the results of the study taken as a whole. Second, methodological limitations, material to the full assessment of some of the findings that were reported, were not presented. For example, the Department summarizes the program evaluation on the South Saskatchewan River Project as follows: "Key findings of the evaluation found that over the 50-year lifetime of this project, the direct benefits are expected to equal costs." However, this statement is based on the use of a discount rate of five percent (which the Department believes is the more appropriate value), and this has not been disclosed. Government guidelines on benefit/cost analysis suggest that a ten-percent social discount rate be employed along with a sensitivity analysis in the range between five and fifteen percent when analysing federal government expenditures. The use of a ten-percent social discount rate gives a materially different result. Regardless of the merits of using a discount rate of five percent, the discount rate employed should have been disclosed in the Part III.

Completeness of the Part III

4.74 In the Department's letter to the PAC, nine changes and additions to its Part IIIs in 1989/90 and 1990/91 are outlined. These changes include a new program and organization chart, new tables and graphs, and crosswalks to help explain organization/activity changes; they add to the completeness of the information in the document.

4.75 Although we did not systematically review the document against a criterion of completeness, we did note two examples of incomplete disclosure.

- There is only a minor reference in the Part III document to the statutory requirement for payments to the Canadian Wheat Board (CWB) for pool account deficits. Contrary to the comment on page 1-5 of the Part III that pool account deficits are rare, this has not been so in recent years when there have been significant payments from the Consolidated Revenue Fund. Over $208 million was paid in 1986/87 and over $113 million in 1987/88. Further, a pool account deficit of $33 million was incurred in 1989/90 and paid in 1990/91. The Department advises that this latter amount will be disclosed in the 1991/92 Part III.
- Discussion of the National Tripartite Stabilization Program, covering eight discrete agricultural commodities, is limited to two brief references on pages 4-46 and 4-48 of the Part III. In our view, this is inadequate for a program that, in the past four years, has involved federal contributions of over $230 million, and stabilization payments to producers of over $800 million.

Senior management sign-offs

4.76 Another level of control cited by the Department in its response to the Committee is branch head sign-off on the final draft of the branch submission. The Department has indicated that it believes that the branch head sign-offs represent a critical control point for the document's quality, accuracy, clarity and completeness. To be fully effective, sign-offs would require that the branch heads make specific attestations with respect to matters such as accuracy, consistency, and completeness and that these attestations be backed up by specific procedures carried out by staff to enable the branch heads to make these attestations.

4.77 The guidance issued to the branch heads on 22 December 1989 asked that they give special consideration to the PAC's concerns in their review and approval of the preliminary draft. We observed that the actual sign-off documents were general in nature and were usually restricted to a statement that the draft was approved for release.

Senior financial officer representation

4.78 An important source of assurance as to the quality of the Part III is the letter of representation the SFO is required to provide to the OCG. In this letter, the SFO is required to make six specific representations with respect to quality and accuracy. One of these is that the SFO represents that, "Both the French and English documents have been proofread and cross-checked with respect to text, references and numbers." Although the Department advises that the references and numbers were cross-checked, as noted earlier the French and English texts were not.

Changes in the 1990/91 Part III

4.79 On the second page of its letter to the PAC, the Department cites a number of specific changes and additions that it has made to the 1990/91 Part III that it believes make improvements along the lines recommended by the PAC. The several changes and additions cited in that letter add to the completeness of the information in the Part III and we have confirmed that they were made.

Completeness of results information

4.80 In its response to the PAC the Department states, "It is recognized that more program results information should be incorporated in the Part III document." We concur, as did the Comptroller General in his response to the PAC. Improvement in this area would further assist Parliament in reviewing departmental programs.

Conclusion

4.81 As previously noted, we did not attempt to assess the overall quality of the Department of Agriculture's Part III. Accordingly, to infer conclusions based on this report about the overall quality of the 1990/91 Part III is unwarranted.

4.82 We have reviewed the systems and practices on which the Department of Agriculture relies in order to have a reasonable level of assurance that its Part IIIs are accurate, clear, consistent, and complete. We conclude that there are deficiencies in these systems and practices as currently carried out, that are of concern both to us and the Department.

4.83 The Department will need to make improvements to the systems and practices it employs in preparing the Part IIIs if it is to have reasonable assurance that they can ensure that the Part IIIs contain accurate, clear, consistent, and complete information. We note that the Department did make a number of changes in its 1990/91 Part III and that it and the OCG are working closely together; and we are informed that action plans to further address PAC concerns are being prepared and will be implemented for the 1991/92 and future Part IIIs.

Canadian International Development Agency - 1988, Chapter 9

Background

4.84 Our 1988 audit of the Canadian International Development Agency (CIDA) focussed on a number of systems weaknesses in the preparation of contracts to procure goods and services, in the management of information and in the monitoring of contributions to voluntary organizations. We also reviewed the information provided to Parliament in Part III of the Estimates. We followed up on CIDA's action on our observations and recommendations, through discussions with management and review of the documentation provided to us on progress made since 1988. Our follow-up was conducted mainly from January to March 1990.

4.85 In November 1989, CIDA obtained Treasury Board approval to change its contracting policies and procedures, including delegating a higher level of authority and improving the process for selecting contractors. These changes are noteworthy, although unrelated to the main issues in our 1988 Report. They are aimed at improving the overall quality of CIDA's contract management.

Conclusion

4.86 Overall progress in implementing our recommendations has been slow, and a risk therefore remains that bilateral aid projects will not meet all the objectives of CIDA or recipient countries. Plans had not been finalized, at the time of our follow-up, to ensure that work performed under contract responded to agreed project needs. Procedures to adequately monitor contractor performance had not been finalized at the time of our follow-up, and procedures to verify that goods were purchased at no higher than fair and prevailing market prices had not improved significantly. Furthermore, CIDA had not made significant progress in using its Aid Information System (AIDIS) for project management across the bilateral program. It had taken steps to improve monitoring of non-governmental organizations receiving funds from CIDA, but more systematic monitoring based on the nature and type of organization had yet to be developed. There had been progress in making the Part III of the Estimates more readable.

4.87 CIDA indicated that, although overall progress may appear slow, most projects are multi-year in nature and are currently operating under contractual arrangements that prevailed before changes were introduced. Therefore, the effects of new policies that were being finalized at the time of our follow-up will be evident only as new projects are developed or to the extent that amendments can be made to existing projects.

Observations

Contracting practices continue to be weak

4.88 **Requirements definition and statements of work.** In 1988 we noted a need to ensure that contracts for goods or services consistently match project requirements. We noted cases such as the hydroelectric dam in China, the South Sumatra coal transport project and Phase III of the Canada-Tanzania wheat program where contract management had failed to meet objectives. We also reported that statements of work in contracts were not precise, nor sufficient to provide the parties with a common understanding of the work to be performed, or to assess progress and contractor performance.

4.89 CIDA officials informed us that they have developed a revised contracting approach to correct these weaknesses, including better definitions of requirements and clearer statements of work. The new approach requires that plans for procurement and contracting be formulated for each bilateral project whose total value is more than $1 million, or whose complexity justifies a contracting plan.

4.90 We were unable to obtain reasonable assurance, at the time of our follow-up, that these plans were working effectively. Our tests indicated that a significant number of contracts signed after our 1988 Report had not yet incorporated the proposed improvements. The necessary reconciliation of project objectives with contract requirements is not likely to be done in a large number of contracts (the majority, in 1989/90) unless management places a higher priority on developing adequate plans to guard against the risk that contracts in projects under $1 million may not meet objectives.

4.91 Recipient country procurement. We commented in 1988 that CIDA had no criteria for determining whether it should be Canada or the recipient country that should contract for procurement. We also noted that contract requirements formulated by recipient countries were not always reviewed for their conformity with project objectives.

4.92 CIDA has now developed such criteria and guidelines, effective in April 1990. However, it is too early to determine whether they will produce the desired results.

4.93 Pricing. We noted in 1988 that CIDA did not have adequate procedures to ensure that goods were purchased at prevailing market prices, and recommended that procedures be established to ensure the accuracy of fair price declarations.

4.94 CIDA has rephrased its standard fair price declaration to reflect that such declarations may be subject to audit and that it will take action to recover any amount found to be in excess of the fair price. A study by the Audit Services Bureau to develop appropriate auditing procedures had been scheduled for March 1990.

4.95 This action, in our view, is insufficient. We believe that CIDA should consider more cost-effective measures to verify prices before contracting, not after, to reduce the risk of overcharging by suppliers of goods and services -- as occurred, for example, in the potash case referred to in our 1988 Report.

4.96 Canadian content. We said in 1988 that CIDA did not have adequate procedures to ensure that the goods which were purchased met the requirement for Canadian content, and we recommended establishing procedures to ensure the accuracy of Canadian content certificates. CIDA informed us that its Policy Branch will undertake reviews to formulate policies on Canadian content, after consultation with the Department of Supply and Services, and will then establish appropriate procedures.

4.97 Contract administration. We reported in 1988 that contract monitors were often not hired or assigned until after a substantial portion of the contracted work had been completed. We recommended that monitors be in place at the appropriate time to provide adequate support for the ongoing assessment of contractor performance. CIDA indicated that it is giving greater attention to the early appointment of qualified monitors; it has also prepared a checklist for their guidance. At the time of our follow-up, these improvements were in the early stages of implementation.

Aid Information System needs improvements

4.98 CIDA has developed a computerized Aid Information System (AIDIS), at an estimated cost of $40 million, to provide the necessary information for financial management and control as well as to track project implementation. We reported in 1988 that CIDA was not achieving value for money from the system's project management capability. The system was difficult to access, had poor data presentation and, in some branches, was rarely used by project officers. We recommended that CIDA ensure that non-financial data entered into the Aid Information System be accurate and timely.

4.99 New "business support" systems are being developed to allow project managers to enter data directly into AIDIS as part of their work routine, thus improving the accuracy and timeliness of the non-financial information. Since our audit, new systems have been introduced on a test basis in two branches, and a third system has been under development for the bilateral aid program. Until these new systems have been fully implemented, most users will continue to have difficulty in accessing AIDIS and will therefore continue to depend on other systems and sources of information.

Special Programs Branch's monitoring and funding practices are improving

4.100 We indicated in 1988 that CIDA's methods of monitoring and controlling its contributions to non-governmental organizations and institutions (NGO/NGI) were not well matched to the nature and types of organizations receiving funds from the Special Programs Branch. We also noted that more and more contributions to certain organizations had the characteristics of grants, and that there was a need for new accountability mechanisms. We recommended that CIDA develop and implement a more systematic approach to accounting for Special Programs Branch expenditures.

4.101 CIDA has taken steps to improve its monitoring methods but it is too early to assess whether they will be effective. For example, in May 1990 the Special Programs Branch introduced a project assessment report form to allow the aggregation of key information from visits to field projects, and to facilitate the evaluation of its programs. Organizational assessments now contain information on past performance of NGOs; and four organizations considered by CIDA as having adequate control and accountability processes will receive grants instead of contributions in 1990.

4.102 The Special Programs Branch still needs to implement our recommendation for more systematic monitoring based on the nature and types of recipient organizations. Such an approach would focus on the most significant aspects of program delivery to minimize the risk that the recipient may spend monies received from CIDA for purposes other than intended, or in a manner inconsistent with CIDA's requirements.

Information for Parliament has improved

4.103 In 1988, we recommended that CIDA continue to simplify the presentation of information in its Part III of the Estimates by reducing the use of jargon and complex explanations, and also ensure that its performance data is related to program plans and activities. CIDA has made progress in this area by making its presentation simpler, clearer and more readable.

Department of Indian Affairs and Northern Development - 1988, Chapter 14

Background

4.104 In our 1988 audit of the Department of Indian Affairs and Northern Development, we made observations in regard to the Post-Secondary Education Assistance and Social Development programs, and to funding arrangements with Indian bands.

Conclusion

4.105 The Department has taken action to implement all our recommendations, except for that relating to its legislative mandate. Progress has been made but our concerns have not been fully addressed. A follow-up assessment will be conducted in 1991 and 1992 when new systems are in place.

Observations

Developing legislative mandate

4.106 We recommended that a clear legislative mandate for funding and program delivery to Indians be developed in the areas of post-secondary education assistance and social development. The Department has completed discussions with the Department of Justice and Treasury Board and has concluded that a legislative mandate will be pursued in the longer term.

4.107 The Department has also followed our recommendation to develop a new policy for Post-Secondary Education Assistance and, to some extent, for Social Development. These are discussed below.

Post-Secondary Education Assistance

4.108 We recommended that the Department take steps to ensure consistent delivery of its Post-Secondary Education Assistance program and to maintain relevant basic program information. The Department introduced, for the 1989/90 school year, the Post-Secondary Student Support Program (PSSSP), which clearly established roles and responsibilities and provided for consistent delivery of Post-Secondary Education Assistance.

4.109 The Department is in the process of implementing our recommendation to provide departmental officials with relevant, accurate, and up-to-date program information.

Social Development

4.110 We recommended that the Department develop comprehensive policy statements for each of the three major Social Development programs. A policy for Social Assistance has been established; a policy for Child Welfare and Family Services is under development; and policy research is being conducted for Adult Care.

4.111 The Department has taken steps to address our recommendation to maintain up-to-date basic program information. Information systems for Social Assistance and for Child Welfare and Family Services are currently being developed by the Department.

4.112 The Department is also in the process of revising guidelines for conducting reviews of field practices in Social Assistance and in Child Welfare and Family Services to ensure that they are consistent with existing directives and procedures.

Funding arrangements with Indian bands

4.113 In response to our recommendations, the Department developed a new funding mechanism (Flexible Transfer Payments) and revised the existing Alternative Funding Arrangements (AFA), with the objectives of removing barriers to good management and ensuring that the most appropriate funding mechanism is applied.

4.114 We also recommended upgrading the qualifications and training of the Funding Management Officers (FMOs) who administer funding arrangements. The Department is currently revising its training program and the position description for FMOs to provide a consistent statement of required qualifications.

4.115 We also recommended that the Department seek a clear legislative mandate for Alternative Funding Arrangements. A follow-up assessment in this area will be carried out in 1991.

Department of National Defence - 1988, Chapter 15

Background

4.116 From 1984 to 1988 we made 61 recommendations that dealt with a broad range of DND's systems and areas of responsibility. The Public Accounts Committee also made eight additional recommendations. DND has assisted us in our efforts to follow up on its response to these recommendations by submitting to us semi-annual reports on its progress.

4.117 This report focusses on the recommendations contained in Chapter 15 of our 1988 Report, which covered three main areas: three elements of the Materiel Support system (combat supplies, maintenance and quality assurance); reporting to Parliament, including the reporting of capability levels, resource requirements and past performance; and revenues, which we audited for compliance with policies and guidelines.

Conclusion

4.118 DND has completed work or is taking action on all of our recommendations. The key initiatives are longer-term in nature, and when completed should resolve many of our concerns. DND has moved aggressively in the areas of ammunition, medical supplies and quality assurance. In the areas of maintenance, cost of holding inventory, reporting to Parliament and recovery of revenues, corrective action has been slower.

Key Recommendations and Progress to Date

Materiel Support

Combat supplies

4.119 In 1988 we concentrated our examination of combat supplies on ammunition and medical supplies. Our follow-up has identified an aggressive response to our recommendations.

4.120 Ammunition. We reported that the production capability required to support the Munitions Supply Program (MSP) had not yet been identified, which precludes DND from developing plans for achieving the strategic objective of appropriate Canadian self-sufficiency. We also reported that Canadian-produced ammunition costs 30 percent more than the lowest prices available from other NATO suppliers, and that DND was carrying large amounts of excess training ammunition stocks.

4.121 An interdepartmental review of the MSP is now in progress, with a view to recommending a procurement strategy for the acquisition of ammunition for the Canadian Forces in peace and war. DND has also taken steps to reduce some of its excess holdings of ammunition and is developing an improved procedure for determining the amount of ammunition to be purchased.

4.122 Medical supplies. DND has a number of initiatives in progress to convert the existing system to a wartime framework, and has taken several steps to improve the efficiency of its medical supply system, including increased use of direct supplier-to-user deliveries.

Maintenance

4.123 Repairables inventory. We reported that there was $250 million of repairable items that exceeded peacetime requirements. We recommended that DND further define its requirements for repairable items, review current holdings against requirements, dispose of unusable excess, and investigate the costs and benefits of ways of optimizing inventory holdings. The DND policy on holding spare parts combines peacetime system safety stock requirements with warstock requirements. This precludes tight control of system safety stocks, which should always be held to the minimum level necessary. Warstocks, on the other hand, should always be held to the maximum level authorized and funded.

4.124 The main initiative DND is taking to improve inventory management is the Canadian Forces Supply System Upgrade project (CFSSU), scheduled for completion by 1997. Other DND action consists of reviewing levels of many inventory items, including repairables. Over the past year DND has identified $45 million of inventory for disposal. Disposal of over 30,000 items will continue over the next two years and DND will monitor progress by examining a random sample.

4.125 As defence policy and force structure planning are now undergoing major revisions, DND has not yet addressed the question of repairables requirements for war.

4.126 Repairables warranties. We also examined the management of warranties on items repaired at contractor facilities. In response to our recommendation that DND assess the costs and benefits of warranty alternatives, a service paper containing specific policy recommendations is being prepared.

4.127 Weapon System Management (WSM). WSM involves managing components from the viewpoint of total system availability and minimum life-cycle costs to meet operational requirements. Our 1988 audit noted the importance of the new supply system being able to accommodate whatever maintenance philosophy may ultimately be adopted. The CFSSU should be able to accommodate WSM techniques, if a current pilot project on WSM indicates that this philosophy should be adopted.

Quality Assurance

4.128 We recommended that DND reassess all contractors against NATO standards and improve its information system. DND has completed the reassessments and a proposed Quality Assurance Management Information System is awaiting Treasury Board Approval.

The cost of holding inventory

4.129 We suggested that DND promote better inventory management by buying appropriate quantities and eliminating unusable excess stock. Stock that exceeds requirements imposes an additional cost. DND accepted our recommendation that it determine, in co-operation with the Office of the Comptroller General (OCG) and the Treasury Board (TB), cost-to-carry factors for various types of inventory, and that these cost factors be incorporated in the CFSSU.

4.130 In addition to the measures described above to improve overall inventory management, DND is drafting an instruction for supply managers which considers cost-to-carry factors in some procurement decisions. It also conducted research into the theoretical foundations and the feasibility of using inventory holding costs concepts in the CFSSU. Although an initial meeting with officials from the OCG and TB established a protocol for resolving this issue, no further meetings took place. DND is now of the opinion that it does not need to determine its cost-to-carry factors for incorporation in the CFSSU. It is investigating approaches that may lead to economic purchasing and proper inventory management without having to consider explicitly a cost-to-carry factor.

Reporting to Parliament

4.131 Our 1988 Report, consistent with themes of earlier reports dating back to 1982, found that Part III of the Estimates did not provide information that could assist members of Parliament in assessing performance. We noted that this kind of information is desirable, practical and possible from a national security standpoint. The OCG has also requested this type of information from DND.

4.132 Although DND continues to agree with the substance of our recommendation, little progress has been made towards developing a method of non-classified effectiveness reporting for the Estimates. Steps are now being taken to work with the OCG to define the types of information that might be provided, and to establish a timetable.

Revenues

4.133 We recommended that the policy and regulation regarding cost recovery of emergency humanitarian and disaster assistance to the provinces be clarified and that the outstanding amounts be either collected or written off. At the time of our follow-up, DND had not made any progress in this area, but has since referred the matter for internal review.

Department of National Revenue, Taxation - Tax Collection - 1988, Chapter 17

Background

4.134 In our 1988 chapter on Tax Collection, we made recommendations covering the following areas:

- management and control of collections;
- interest charged on unpaid taxes; and
- information to Parliament.

4.135 Our follow-up findings are based on a review of how the Department said it had responded to our recommendations, and an examination of its supporting documentary evidence. We also conducted a limited number of interviews with managers of the collections activity in some district offices.

Conclusion

4.136 In some cases the Department has fully implemented our recommendations; in others the response is not complete but progress has been made; and for the remaining recommendations the response is in the planning stage only.

Scope

4.137 In our follow-up, we did not attempt to evaluate the success of the Department's efforts. We intend to conduct a further follow-up in 1992, by which time the Department expects that it will have responded fully to all recommendations. Additional detail regarding certain of our recommendations is set out below.

Observations

Management and control of collections

4.138 In our 1988 chapter we pointed out that productivity in tax collection, as measured in dollars collected per hour of labour, had declined by 18 percent over the five-year period from 1982/83 to 1986/87. According to departmental data, productivity has risen each year since 1986/87. In 1987/88 the productivity level slightly surpassed that of 1982/83, and by 1989/90 collections averaged 1,370 dollars per hour of labour. This represented an improvement of approximately 75 percent over 1986/87.

4.139 Our Report expressed concern about the Department's ability to manage the inventory of accounts requiring collection action. Various positive steps have since been taken by the Department to upgrade the management and control of collection operations, such as development of a receivable intake model to permit a more scientific approach to estimating new account intake; revision of collection work-flow procedures; and development of the Automated Collections and Source Deductions Enforcement System (ACSES). This system represents the evolution of the Automated Collection System which had been in the prototype stage at the time of our 1988 audit and on which we had commented in our Report. Further improvements to management information systems and techniques are being developed, most notably the on-line collections statistical package which the Department plans to implement as early as April 1992.

4.140 In view of the large inventory of accounts awaiting collection, it is important that collection officers concentrate their attention on those where the risk of default is greatest. Our Report had noted that the Department's prototype collection system contained a module that would assess the relative risk of each account. We had recommended that after the system was fully implemented, the Department evaluate the effectiveness of the risk profile module. In our follow-up, we learned that the Department intends to evaluate the risk profile module after ACSES is fully implemented in 1991. The Department also intends to enhance the module by introducing a collectability rating.

4.141 Our Report had noted the infrequent monitoring of collections activities by head office, and commented that such monitoring would help ensure the quality and productivity of collection activities. Our follow-up revealed that comprehensive policy and procedures for monitoring of collections by head office have been drafted. These are under review and will be in place shortly.

4.142 At the time of our audit we noted that the Department lacked a readily accessible data base on write-offs from which it could analyse data for planning and operations. We were told during our follow-up that improved accessibility to write-off data will be explored in the context of enhancements to ACSES and the on-line collections statistical package being developed.

Interest rate on unpaid taxes

4.143 In our Report we had compared the consistently lower interest rates charged by the Department on delinquent accounts to certain other public and private sector interest rates. We were concerned that this might encourage taxpayers with unpaid taxes to pay other liabilities first. The method of prescribing the rate at which interest is charged on unpaid tax has since been changed by legislation. Formerly, the rate was determined each quarter on the basis of the weekly average yield of 90-day Treasury Bills. Under the new legislation, the rate calculated in this manner is increased by 2 percent.

Information for Parliament

4.144 Our Report had criticized the way information on Scientific Research Tax Credit (SRTC) receivables had been reported in Part III of the Estimates and in the Public Accounts. Information provided to Parliament in both of these documents has since been improved. However, we noted an inconsistency in reporting between Part III and the Public Accounts for 1988/89. Volume II of the Public Accounts includes the amount of write-offs of uncollectible SRTC accounts receivable but does not report the amount of SRTC receivables. Part III reports both figures.

Suspected Fraud Reporting Procedures - 1988, Chapter 19

Background

4.145 This year we followed up on our 1988 Report chapter on procedures for reporting suspected fraud. Our 1988 audit was a continuation of work we had reported to the President of the Treasury Board in 1985 and to Parliament in 1987.

4.146 In 1987 the Treasury Board issued a policy requiring that suspected fraud and other illegal activity be reported to the RCMP, the Deputy Attorney General and the Treasury Board, and that all proven cases be reported to Parliament. In 1988 we noted that most of the six departments we examined had not implemented the policy. In particular we found that:

- independent centres had not been established to receive and manage reports of suspected fraud and other illegal activity;
- public servants had not been adequately informed of their obligation to report suspected illegal activity, nor of how and to whom they should report it;
- in some cases departments had not reported suspected cases as required, or had reported them after substantial delays; and
- there was a lack of adequate safeguards to protect the identities of persons who report and of those against whom unproven allegations are made.

4.147 We recommended that departments immediately comply with the reporting procedures required by Treasury Board, and that all related records have the same legal status as similar RCMP records, with the same safeguards to preserve their confidentiality.

4.148 To follow up, this year we asked the Office of the Comptroller General for a status report on the government's action, including the development of policies on how losses of public property due to fraud and other illegal activity should be managed and reported to government agencies and Parliament. (We had been advised by the Treasury Board Secretariat that the policies relating to public properties would be issued by November 1987.)

Government Response

4.149 The Office of the Comptroller General (OCG) indicates that, since the release of our 1988 Report, both it and the RCMP have taken steps to explain to departments the government's policy on reporting suspected fraud. Although the RCMP indicated to the OCG that it did not have hard data, it stated that it had observed increased compliance with the requirement to report instances of suspected illegal activity against the government to the RCMP. The OCG also notes that departmental internal audit groups have been asked to include testing of compliance with the policy in their audits.

4.150 In addition, the OCG states that it has been working on a clarification of the policy which is expected to be issued shortly. This clarification will address the issue of confidentiality (including protection of the identity of the accused and of informants, and the retention of records in files), as well as departmental concerns about inflexible application of the policy to minor employment-related incidents.

4.151 The Treasury Board Secretariat (TBS) replied with respect to reporting losses of public property due to suspected illegal activity. The TBS indicates that its Materiel Management Policy, Risk Management Policy and Guide to the Audit of Materiel Management direct departments to ensure that materiel is safeguarded and that losses are reported and investigated. In particular, TBS requires that losses of materiel over $1,000 due to suspected illegal activity be reported to appropriate law enforcement agencies. The OCG confirmed that its policy on loss of money also requires that losses of property due to suspected illegal activity be reported to law enforcement agencies.

Conclusion

4.152 In our opinion, the TBS and OCG have developed satisfactory administrative policies regarding the reporting of losses due to suspected illegal activity to law enforcement agencies, particularly the RCMP. Central agencies have also taken constructive steps, to explain the policy on reporting suspected fraud; to require that losses of property over $1,000 due to suspected illegal activity be reported to law enforcement agencies; and to direct that an assessment of compliance with relevant policies be included in departmental internal audit plans.

4.153 We remain concerned, however, as to whether departments have taken adequate steps to comply with the policies. In the future we plan to conduct further substantive examinations of compliance with these policies. We also plan to examine particular expenditures.

Multiple Source Subsidies - 1988, Chapter 19

Background

4.154 In 1988 we examined whether there was a significant risk that projects might be funded under more than one federal program without the knowledge of the separate donor departments. We concentrated on programs aimed at supporting commercial enterprises, such as those funded by the Department of Industry, Science and Technology and by the National Research Council. We found relatively few instances where companies had received contributions from more than one department for the same or closely related projects. Where they had, the projects had been mainly in research and development. We concluded that communication among departments on the details of specific research and development projects had been weak, presenting a risk of double funding.

Conclusion

4.155 There is now a stronger network of joint committees of the National Research Council and the Department of Industry, Science and Technology. These committees help ensure that each department is aware of companies and projects supported by the other. Both departments require that applicants disclose other sources of funding. For projects with an identified risk of double funding, we have been advised that both departments now examine details of claims for reimbursement of costs when funds are provided. These measures should reduce the possibility of double funding. As part of our regular audit procedures, when we examine projects funded by both departments we will review how well these arrangements are working.

Department of National Health and Welfare - 1987, Chapter 12

Background

4.156 Our 1987 Report set out the results of our audit of the Department's major health programs and those of our concurrent examination of financial management and control, conducted as part of a government-wide study also reported that year. The health programs that we examined were managed by the Health Protection Branch, Medical Services Branch, Health Services and Promotion Branch and the Fitness Canada Directorate.

Conclusion

4.157 Over the past three years, there have been many improvements in the management systems of individual branches and programs. We remain concerned with the quality and disclosure of program and financial information for purposes of accountability.

Observations

4.158 The follow-up emphasis was on those matters highlighted by the Public Accounts Committee in its Fifteenth Report to the House of Commons in 1988. Observations follow on the extent to which management has initiated action in all major areas.

Drug Regulation

4.159 In 1987, in the three areas administered under the Food and Drug Act -- food, drugs and medical devices -- we found serious delays and backlogs in reviewing and approving submissions for new products, as well as failures to meet regulatory requirements for processing times. At that time, management initiatives to reduce delays in the drug area were having little effect; in fact, delays and backlogs were increasing at an alarming rate. The Department has responded to our concerns and recommendations, and to those in the 1987 Stein Committee report, with many changes to the drug submission process.

4.160 The backlog of new drug submissions is now limited only to those submissions for which the Department's own processing time exceeds 180 days. Due in part to this restrictive change in definition, the current backlog of 300 submissions is much lower than the level three years ago. Additional resources were received in 1988, and good progress has been made since then. The goal is to clear the backlog by June 1991.

4.161 The Department still tracks the total elapsed time from receipt of a submission to the issuance of a notice of compliance. We believe that this remains an important indicator of the efficiency of the overall process, and that it should continue to be measured. We noted that a centralized system for drug submission tracking and management information has been developed, and is expected to be fully operational by September 1990.

4.162 New drugs, not yet approved in Canada, can be released to practitioners for use by a particular patient when available products are inadequate or unacceptable. The number of these individual emergency drug releases (EDRs) remains high, at roughly 10,000 per year, with experimental AIDS drugs now a significant element. Procedures for the authorization of EDRs have been improved but, because of other priorities, the Department has not concentrated on improving the system for monitoring and reporting the results of EDRs.

4.163 In 1987 the Department did not have an adequate system for monitoring adverse reactions caused by drug products that it had approved for marketing in Canada. We reported that some Canadians may be facing unnecessary risk as a result. The collection of information on adverse drug reactions has now been consolidated within the Drugs Directorate; but so far, reporting procedures have changed little. A proposal for a new national post-marketing pharmaceutical surveillance program was finalized in January, 1990. A system of periodic re-evaluation of marketed drug products is advocated, including new procedures for the reporting of adverse drug reactions. At the time of our follow-up, discussions were being held with program participants.

Indian and Northern Health Services

4.164 Health services are provided to status Indians and to all residents of the Yukon Territory. In 1987, we found serious deficiencies in the planning, evaluation and management information systems associated with delivery of these services.

4.165 Our current review indicated that systems and procedures have improved. For example, changes have been made in the capital management process to ensure that community health facilities are planned with due regard to economy. A new capital committee structure has been established, policy and guidelines are in place, a new project-costing system has been developed, and there is now a five-year capital plan.

4.166 Planning and evaluation systems for community health care have also progressed. Profiles now exist for all Indian communities, although we noted that some of these are incomplete or out-of-date. Six core indicators have been developed to monitor community health status, and a program evaluation of Indian Health Services was completed in March 1990.

4.167 We found, however, that most health care decisions are still more program-based than community-based -- that is, the mix of health services is based more often on the past and present decisions of regional program managers than on a co-ordinated analysis of an individual community's needs. It is anticipated that the transfer of responsibility for the delivery of health services to Indian bands in the south, and to territorial governments in the north, will facilitate the development of community-designed programs based on specific health needs and priorities. A Health Program Transfer Handbook has been developed to help guide that process.

4.168 Expenditures for non-insured health benefits (NIHB) -- patient transportation, prescription drugs, eyeglasses, and dental services -- continue to rise rapidly, at an average annual rate of 16 percent since 1987/88. Contributing factors include price increases, a growing Indian population and greater program awareness.

4.169 Steps have been taken to improve the management of these expenditures. Since our last audit, a directorate has been established to assume responsibility for all NIHB matters. Directives, guidelines and public pamphlets have been issued to define what benefits are covered under the program, and to ensure greater consistency of application across the country. The process of implementing an automated health information and claims processing system is well advanced.

4.170 We were informed, however, that provinces will be approached concerning respective responsibilities for providing the benefits, and the costs that each government will assume, only after these systems and procedures have been firmly established. In the meantime, the federal government may continue to pay millions of dollars each year for health care costs that should be borne by the provinces and territories.

4.171 Non-insured health benefits are by far the largest single non-statutory program expenditure in the Department of National Health and Welfare, roughly $300 million in 1990/91. The amount of cost and program data contained in the Estimates Part III remains inadequate for any meaningful consideration of this spending. There is no breakdown of NIHB cost components; no trend data; no per capita cost information; and no quantification of the factors driving costs, such as Bill C-31.

4.172 The National Native Alcohol and Drug Abuse Program (NNADAP) now has a management information system in place for treatment activities and one under development for prevention activities. As well, the first program evaluation since NNADAP's inception was completed in 1989; roughly 10 percent of projects were reviewed at that time.

4.173 The evaluation raised a number of concerns with respect to NNADAP's effectiveness. On the treatment side, there were questions about whether program objectives were measurable and achievable. For example, indicators necessary to measure program success had not yet been agreed upon. In the sample of projects reviewed, it was found that funding had continued even though program criteria and deadlines had not been met, and commitments had not been kept. Furthermore, there was no systematic review to ensure that staff were meeting NNADAP objectives. Overall, a more flexible approach to program design and options was recommended and, in general, the Department agreed.

4.174 Three of the four implementation goals approved by Cabinet for the continued funding of NNADAP have now been achieved and surpassed. They relate to the number of treatment centres and beds, and the number of trained workers. Only the prevention coverage goal of 90 percent has not been met. Program officials believe that the 81 percent achieved may be as high as can be reasonably expected.

Health Insurance

4.175 In 1987, management expressed its intention to update the 1984 comprehensive compliance assessment of provincial legislation. We found that this update had not been carried out, but that a process of ongoing monitoring and assessment had been adopted as a better method. The Department has now begun to document its compliance monitoring procedures.

4.176 An important concern remains, however, with respect to monitoring the actual operation of provincial health plans. A systematic, planned, and documented approach is necessary to provide assurance that certain national standards are met, and that federal funding contributions are justified. The results of this compliance review should be documented in relation to the plan. In our view, existing practice does not fully meet these requirements.

4.177 There have now been five annual reports to Parliament on the administration and operation of the Canada Health Act. These reports have contained a province-by-province description of each health insurance plan as it relates to the criteria and conditions of the Act, but no conclusions on the extent to which each province has satisfied these criteria and conditions. We believe that to fully discharge the reporting responsibilities described in the Act, and for accountability purposes, this information should be provided to Parliament.

Fitness Canada

4.178 In 1987, we concluded that there was inadequate financial management and control exercised over Fitness Canada's contribution program, and that there was a need to review the efficiency and effectiveness of the program delivery system.

4.179 Recently, an internal audit report on the Fitness and Amateur Sport Branch concluded that Fitness Canada had made progress in addressing our 1987 concerns. However, it was noted that some weaknesses remain in the central administration of contributions funding. We will re-examine this area as part of our audit to be reported in 1991.

Financial Management and Control Study

4.180 In 1987 we concluded that the Department's financial control over assets, as well as over budget and expenditure transactions, was good. In the area of financial management, we found some deficiencies in the availability of cost and performance information, and in the linkage of resources with operating results. We also found some weaknesses in financial accountability documents such as the Operational Plan Framework, Multi-Year Operational Plan and Part III of the Estimates. These matters will also be re-examined as part of our audit of the corporate management of financial resources which is under way.

4.181 The following comments highlight certain areas where we believe only limited improvement has occurred since 1987. The development of meaningful program performance indicators has been steady, but slow. In practice, there is still no linkage of resources with operating results. The 1990/91 Estimates Part III, revamped to reflect the Department's revised Vote and Program structure, contains several improvements over previous documents. The Department's organizational structure has not changed, however, and it is now more difficult to gain a clear understanding of an individual branch's activities and performance.

Comptroller General
of Canada

300 Laurier Avenue West
L'Esplanade Laurier
9th Floor, West Tower
Ottawa, Ontario K1A 1E4

613 957-7070
Facsimile 613 952-8536

Contrôleur général
du Canada

300, avenue Laurier ouest
L'Esplanade Laurier
9e étage, tour ouest
Ottawa (Ontario) K1A 1E4

613 957-7070
Télécopieur 613 952-8536

March 30, 1990

Mr. Len Hopkins, M.P.
Chairperson
Standing Committee on Public Accounts
Room 261, West Block
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Mr. Hopkins:

In response to your Committee's Recommendation Eleven c) of its Third Report regarding Agriculture Canada's Part III of the Estimates, I have reviewed the department's response and, in general, find it to be one in which I can concur.

Agriculture Canada acknowledges the need for further improvements to its Part III document and the processes that produce it. In its advisory capacity, my Office will continue to provide support in identifying and facilitating these additional specific improvements. Within the next few months a detailed "Post-Tabling Review" of the 1990-91 Part III will be conducted and one facet of the review will focus upon action outstanding against OAG/PAC recommendations.

Yours sincerely,

JAMacdonald

J.A. Macdonald

c.c. The Honourable John Fraser
Speaker of the House of Commons

Canadä

Agriculture
Canada

Deputy Minister Sous-ministre

Ottawa, Ontario
K1A 0C5

Ottawa (Ontario)
K1A 0C5

APR
AVR - 2 1990

LOB 42845

Mr. Leonard Hopkins, M.P.
Chairman
Standing Committee on Public Accounts
Room 261, West Block
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Mr. Hopkins:

I am pleased to provide you with this progress reports, in response to your Committee's Recommendations Eleven (a) and (b) of its Third Report, concerning improvements to Agriculture Canada's Part III of Estimates.

The Committee expressed concerns about the quality of information in the Department's Part III, notably in relation to resource allocation and program results.

In developing its Part III's, Agriculture Canada has always strived for documents of the highest quality. As a result of your Committee's recommendations, additional emphasis has now been placed on quality control at each stage of development. The information contained in each draft document is scrutinised, at the Branch and Corporate levels, for accuracy, clarity, consistency and completeness. I am assured of the quality of the final document by representations from each responsible Branch Head on their individual contributions and from the Assistant Deputy Minister, Corporate Management Branch, on the integrity of the overall document.

.../ 2

Canada

A number of improvements have been made to the Part III document since the Auditor General's consideration of the Department's 1987-88 and 1988-89 Part III's. Specific improvements reflected in the 1990-91 document include the following:

- a new Program/organization chart (page 2-6);
- consolidation of the 1990-91 Program highlights and the updated highlights into one section for each Program (pages 3-6, 4-7, and 5-6);
- consolidation of the 1990-91 Program initiatives and the updated initiatives into one section for each Program (pages 3-10, 4-19, 5-16);
- new graphs which more clearly exemplify the agri-food sector growth, stability and competitiveness (Figures 6, 7, 8, on page 4-23);
- multiple year information tables and graphs (example: Figure 31 on page 4-57); and
- crosswalks to help explain organization/activity changes which affect resource allocation (Figure 55 on page 4-91 and Figures 25 and 26 on page 5-43).

The 1990-91 Par III also reflects a number of improvements to the program results information since 1988-89. Examples of this are as follows:

- key performance measurement data for the Inspection and Regulation Activity (Figure 19 on page 4-40);
- operational output information for the Prairie Farm Rehabilitation Administration Sub-activity within the Agriculture Development Activity (Figure 34 on pages 4-61 and 4-62); and
- more specific information on what has been accomplished within the Scientific Research and Development Activity (pages 4-29 through 4-31).

.../ 3

It is recognized that more program results information should be incorporated in the Part III document. This issue has been actively discussed with the Treasury Board Secretariat and the Office of the Comptroller General over the last several months. The Department will strive to enhance this type of information in subsequent years.

Each year, Agriculture Canada revises its departmental Part III guidelines to reflect enhancements and improvements that have been identified over the previous year. Included are revisions required to ensure consistency with any amendments made to the government guidelines issued by the Office of the Comptroller General.

This report has been sent to the Auditor General. I remain at the disposal of the Committee and of the Auditor General, should you wish additional information or any clarification of this report

Yours sincerely,

Original signed by
Original signé par
Jean-Jacques Noreau

Jean-Jacques Noreau

5

Job Classification: A Follow-up

Job Classification: A Follow-up

Main Points

5.1 Job classification is a process for determining the relative worth of jobs. The effective design and management of the classification system are of special significance because of the system's central role in relation to the management of people in the public service, and its relationship to payroll costs. In 1988/89 public service straight-time payroll costs exceeded $7 billion (paragraphs 5.5 to 5.8).

5.2 In 1984 this Office audited the management of job classification. We reported a service-wide misclassification rate of close to 24 percent, resulting in an unwarranted annual net cost of $125 million. We made recommendations designed to improve the management and control of job classification (5.12 to 5.14).

5.3 This 1990 follow-up examined progress since 1984 and found:

- Treasury Board Secretariat and departmental monitoring and control capabilities are reported as significantly improved;
- a large number of classification standards have been revised but the delay in updating some classification standards is serious;
- progress in implementing a system of departmental benchmarks - a "key job" system - has been limited; and
- while a reduction in the rate of misclassification to 6.4 percent in 1988/89 has been reported by the Treasury Board Secretariat - resulting in an unwarranted annual net cost of approximately $5 million - weaknesses in the conduct of the audit may have affected results. There is a need for increased audit rigour (5.23 to 5.49).

5.4 The need for reform of personnel management, including job classification, is now under review as part of the Government's Public Service 2000 initiative. The need to simplify the job classification system is clear (5.16 to 5.18 and 5.50 to 5.64).

Table of Contents

Paragraph

Introduction 5.5

The job classification system is complex and, because of its relationship to payroll costs and the management of people, its effective design and management are of special significance (5.5)

Background 5.11

Job classification has been the subject of considerable scrutiny (5.11)

Follow-up Objectives and Scope

Objectives 5.19

Scope 5.21

Classification Program Monitoring and Control - Significant Improvement Reported 5.23

Treasury Board Secretariat and departmental monitoring and control capabilities are reported as significantly improved (5.23)

Classification Instruments

Classification Standards 5.29

Although a large number of classification standards have been updated, the delay in updating certain standards is serious (5.29)

"Key Job" System 5.33

Limited progress has been made in developing and implementing the "key job" system (5.33)

Audit of the Quality of Classification Decisions - Audit Effectiveness Improved but Further Improvement Is Needed 5.35

An improved audit capability now exists (5.35)

There has been a reported reduction in misclassification rates (5.38)

Weaknesses in the conduct of the 1988/89 audit may have affected results - a need for increased audit rigour (5.41)

Table of Contents (cont'd)

Paragraph

Reform - A Pressing Issue 5.50

The classification system is still under pressure due to the high level of classification activity and other factors. It is still seen as complex and burdensome, and "pay equity" has increased administrative costs and complexity (5.50)

Exhibits

5.1 Treasury Board Secretariat Performance Ratings of Departmental Job Classification Monitoring and Review for 1988/89

5.2 A Comparison of the Reported Rates of Misclassification for 31 Departments in 1985/86 and 1988/89

Job Classification: A Follow-up

Introduction

The job classification system is complex and, because of its relationship to payroll costs and the management of people, its effective design and management are of special significance

5.5 Job classification is a process of analysis and evaluation for determining the relative worth of jobs.

5.6 In the federal public service, with its diversity of jobs, the classification system is complex. There are six broad occupational families or categories: Management, Scientific and Professional, Technical, Administrative and Foreign Service, Administrative Support, and Operational. These categories comprise some 70 occupational groups. In addition many occupational groups have sub-groups. There are more than 100 sub-groups in total. Essentially all groups, and some sub-groups, have their own classification plan.

5.7 The occupational group structure was designed as a basis for establishing bargaining units in the late 1960s. The system, basically unchanged, remains as the framework within which, primarily through bargaining, wage and salary scales are established for public servants.

5.8 The effective design and management of the classification system are of special significance because of its central role in relation to the management of people in the public service and its relationship to payroll costs. In 1988/89 public service straight-time payroll costs exceeded $7 billion.

5.9 The terms "job" and "position" are used somewhat interchangeably. In the federal public service each employee occupies a "position"; a "job" normally refers to one position or to several essentially similar positions that can be described in one job description.

5.10 Generally, the process of classifying a job involves evaluating the duties assigned, using a classification standard. A standard is the classification plan and reference job descriptions ("benchmarks") used to evaluate jobs in a particular occupational group.

Background

Job classification has been the subject of considerable scrutiny

5.11 The current job classification system has been the subject of a number of major studies over the years. These have resulted in recommendations related to both the management of the system and the simplification of its design.

5.12 In 1984 this Office audited the management of job classification. We reported (Chapter 8) that a 1982/83 audit of the quality, or correctness, of classification decisions, by the Treasury Board Secretariat (Secretariat), indicated that 23.8 percent of positions were misclassified. At that time the Secretariat, the central agency responsible for overall management of the classification system, estimated that this resulted in an unwarranted annual net cost of approximately $125 million. Our 1984 audit also revealed widespread non-compliance by departments with Secretariat classification policy and procedural requirements, and lack of concerted effort by the Secretariat to ensure compliance. We made recommendations designed to improve management and control of job classification by the Secretariat and departments. Departments have delegated authority to classify most public service jobs.

5.13 In 1985, the House of Commons' Standing Committee on Public Accounts (Public

Accounts Committee) asked the Secretariat to report by 30 April 1986 on classification activities across government and on progress in making necessary improvements. As well as reporting on the actions taken and planned, the Secretariat provided the results of a 1985 86 audit of the quality of classification decisions conducted by departments.

5.14 Later in 1986 we conducted a follow-up audit and reported on progress achieved since 1984. Our conclusion (Chapter 15) was that Treasury Board and its Secretariat had taken strong and direct action to address the problems identified in 1984. However, certain initiatives had not been fully implemented or were proceeding slowly. We undertook at that time to conduct this 1990 follow-up.

5.15 A second audit of the quality of classification decisions was conducted by departments during 1988 89. The results were reported by the Secretariat to the Public Accounts Committee in a report dated November 1989.

5.16 In December 1989 the government announced Public Service 2000. One of its objectives is to modernize and make less complicated and burdensome the employment and personnel management regime. To this end, committees of Deputy Ministers and other senior public servants are examining such matters as the classification system and occupational group structure.

5.17 In March 1990 the Public Accounts Committee convened public hearings to consider issues related to human resource management in the public service and the need for reform. It heard testimony from public service unions that supported the need for fundamental changes to the current job classification system.

5.18 As of June 1990, the recommendations of Public Service 2000 had not been made public, and the Public Accounts Committee had not reported to the House of Commons.

Follow-up Objectives and Scope

Objectives

5.19 Our first objective was to assess the Secretariat's progress in fulfilling key commitments made to the Public Accounts Committee in 1985, taking into consideration the changing public service environment.

5.20 Our second objective was to assess the validity and reliability of the results of the 1988 89 audit of the quality of classification decisions.

Scope

5.21 We examined steps taken by the Secretariat to improve the monitoring and control of job classification, and classification instruments such as standards. We also examined the procedures followed by five departments selected at random, and the Secretariat, in conducting and reporting on the 1988 89 audit of the quality of classification decisions.

5.22 Excluded from our scope was job classification for the Management Category. We reported on this in 1989 in our follow-up to the audit of the Management Category.

Classification Program Monitoring and Control - Significant Improvement Reported

Treasury Board Secretariat and departmental monitoring and control capabilities are reported as significantly improved

5.23 In 1985, to strengthen monitoring and control of job classification, the Secretariat made commitments to the Public Accounts Committee, which included that:

- jobs would be evaluated by committees that included managers knowledgeable about the work being evaluated;
- reorganization proposals would be approved by managers who were at least two levels above the jobs affected;
- on-site reviews of duties being performed would take place before occupied positions were reclassified upward; and
- reports of departmental plans and activities in the areas of monitoring and review of classification decisions would be submitted to the Secretariat annually.

Departments that have met performance standards specified by the Treasury Board Secretariat have been given increased operational flexibility.

5.24 These policy and procedural requirements were introduced. More recently however, in the context of Increased Ministerial Authority and Accountability (IMAA), departments that have met performance standards specified by the Secretariat have been given increased operational flexibility. For example, such departments are now free to determine whether evaluation committees will be used, and in what circumstances.

5.25 The Secretariat considers that because of its Position Information Collection System (PICS), implemented in 1986, it is now better able to monitor departmental classification activity. For example, it can detect a shift to a higher classification level of a number of positions in a particular department. According to the Secretariat, such information enables it to seek explanations from departments and to require corrective action to be taken where appropriate.

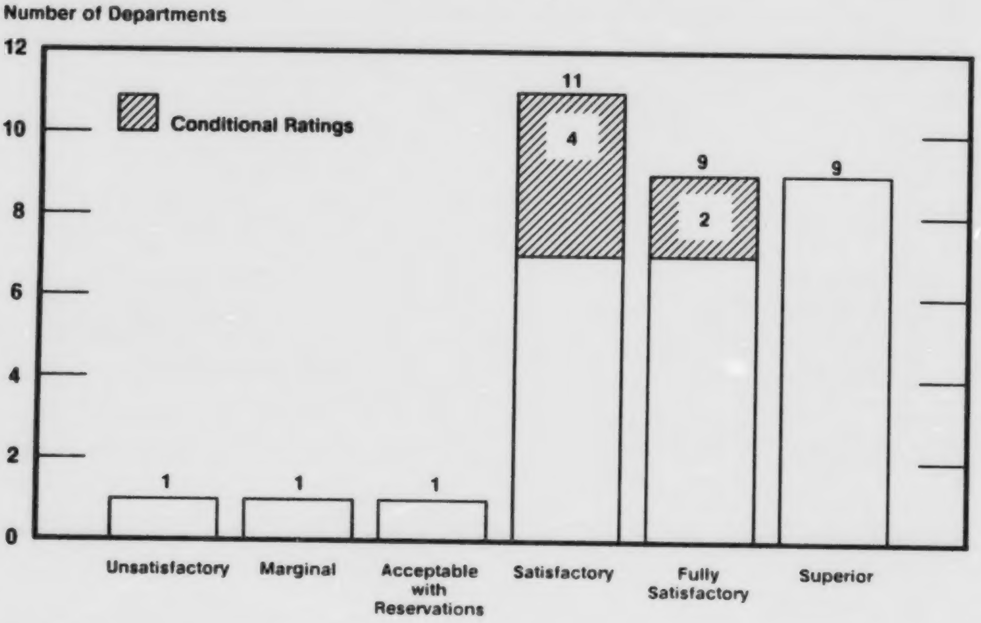
5.26 Since 1983/84, for departments with 400 or more employees, the Secretariat has annually rated performance in the areas of monitoring and review of classification decisions. To accomplish this it uses departmental reports, and reviews of departmental monitoring done by the Public Service Commission Audit Branch, or audits done by departmental internal audit units. Without a favourable report from such a review or audit, the Secretariat does not normally grant a "fully satisfactory" rating to a department for classification monitoring and review performance.

5.27 The Secretariat's November 1989 report to the Public Accounts Committee showed significant improvement in departmental monitoring and review performance ratings between 1983/84, when 23 departments were less than "satisfactory", and 1987/88 when two were less than "satisfactory". Of the 32 departments rated in 1988/89, nine were "fully satisfactory" and an additional nine were "superior" - a rating introduced in 1988/89 to recognize those departments that have achieved and maintained "fully satisfactory" performance for three consecutive years. Of the remaining departments, 11 were "satisfactory", and three were lower than "satisfactory". However, we found that the ratings of six departments, compared to 5 in 1987/88, were made conditional upon specified improvements being made. According to the Secretariat, the level of assessment for these departments can be expected to decrease if the required improvements are not made (see Exhibit 5.1).

5.28 Ratings of departmental monitoring and review performance contribute to determining eligibility for the authority to classify higher level jobs in certain occupational groups, and for increased operational flexibility in classification matters. What is not known, however, is what measures, if any, can or will be taken in cases where departmental performance in managing the classification program is consistently below "satisfactory" or seriously deteriorating. In 1985 the Secretariat informed the Public Accounts Committee that deputy heads whose department's classification performance is unsatisfactory could be called before the Treasury Board to explain the

Exhibit 5.1

TREASURY BOARD SECRETARIAT PERFORMANCE RATINGS OF DEPARTMENTAL JOB CLASSIFICATION MONITORING AND REVIEW FOR 1988/89



SOURCE: Treasury Board Secretariat

situation and their plans for corrective action. The Secretariat informed us that no department has as yet been called before the Board.

Classification Instruments

Classification Standards

Although a large number of classification standards have been updated, the delay in updating certain standards is serious

5.29 In 1985 the Secretariat made a commitment to the Public Accounts Committee to update the classification standards. Specifically, the commitment was that:

- the 50 standards that had not undergone a significant review in the previous 10 years would be updated by 1 April 1987;
- the remaining standards would be reviewed by 1 April 1989; and
- the standards would be kept up to date by implementing a five-year cyclical review process beginning in 1987/88.

5.30 Our examination revealed that the Secretariat did not meet this commitment. According to the Secretariat, as of June 1990:

- they had completed reviews of standards for 46 of 69 occupational groups; and

- reviews of standards for 23 occupational groups remain to be completed; of these, reviews for 12 were under way, with no action planned for the rest pending results of Public Service 2000 and/or resolution of complaints to the Canadian Human Rights Commission about discriminatory practices related to job classification and pay.

Also, the Secretariat has reported to the Public Accounts Committee that the five-year cyclical review was delayed by one year but is now under way.

5.31 We were informed by Secretariat officials that the main reasons for not meeting the commitment concerning the updating of standards are as follows:

- For several groups there was no need, in the opinion of the user departments, to revise the standards.
- Standards for groups in the Administrative Support Category could not be reviewed pending resolution of certain of the human rights complaints referred to in the preceding paragraph.
- Secretariat and departmental resources were not available to complete the task within the time available.

5.32 In 1984 we noted that personnel specialists and operational managers believed that the updating of standards, particularly the benchmarks, was the most important improvement that could be made to the system. For this and other reasons, we regard the delay in the updating of certain standards as serious. For example, technological change has had a significant impact on many jobs - such as those of secretarial and clerical staff - in the Administrative Support Category, in which there are more than 65,000 employees. Also, since 1983 the Secretariat has reported high levels of misclassification in the Secretarial, Stenographic and Typing (ST) group and in the Administrative Services (AS) group of the Administrative and Foreign Service Category. In 1988/89 the misclassification rate for these groups was reported as 14.4 percent and 19.2 percent respectively. It has been 14 years since the ST standard was reviewed. The AS standard has not been reviewed since the system was developed 25 years ago. Secretariat officials informed us that the AS standard review, which it told the Public Accounts Committee had a planned completion date of June 1987, was delayed pending completion of the Programme Administrator (PM) standard so it could follow the same format. Also, the Secretariat was concerned that departments could not cope with two major reviews of standards at the same time.

"Key Job" System

Limited progress has been made in developing and implementing the "key job" system

5.33 In 1985 the Secretariat made another commitment to the Public Accounts Committee - to develop and implement a "key job" system. It was to provide departments with internal references (departmental benchmarks), to be used in conjunction with the benchmarks included in the classification standards. The system was expected to provide the Secretariat and departments with an additional means of controlling unwarranted upward shifts in job classifications. It was to be implemented by 1987 and was to include about 400 jobs in approximately 21 occupational groups and 28 departments.

5.34 By June 1990, there were only 48 key jobs in four occupational groups and seven departments. Secretariat officials informed us that in 1985 it had expected the key job system to reduce the number of benchmarks included in the standards. This reduction was expected to relieve the Secretariat, to a substantial degree, of the problems encountered in the development, maintenance and modification of the benchmark job descriptions contained in the standards. According to the Secretariat, this has not occurred; instead, there has been about a 10 percent increase in the number of benchmarks.

Audit of the Quality of Classification Decisions - Audit Effectiveness Improved but Further Improvement Is Needed

An improved audit capability now exists

5.35 In 1985, because of weaknesses in the 1982/83 audit methodology, among other reasons, the Public Accounts Committee concluded that significant improvement in auditing the quality of classification decisions was required. Given the extent of delegation of classification authority to departments, the methodology was to provide a basis for assessing the performance of each department.

5.36 Subsequently, the Secretariat developed a plan and made a commitment to the Public Accounts Committee that departments would conduct biennial audits under prescribed methodology and procedures, with the Secretariat providing necessary "surveillance". Under the approach adopted, the results of departmental audits would be aggregated to produce a service-wide result.

5.37 The first such audit was conducted in 1985/86. The second audit, which was delayed one year, took place in 1988/89. The Secretariat decided in December 1989 to require departments to conduct future audits only on a triennial basis, with the next one scheduled for 1991/92. This action was taken so that departments could, as part of their own self-initiated monitoring and review activities, give increased attention to known problem areas.

There has been a reported reduction in misclassification rates

5.38 In 1982/83 the Secretariat reported that the service-wide rate of misclassification was 23.8 percent. In 1985/86 the rate was reported at 11.4 percent. Because the methodology was different from that used in 1982/83, the results of the two audits are not directly comparable.

5.39 For the 1988/89 audit, the methodology was the same as that used in 1985/86 and the procedures were similar. The methodology was designed to produce a result accurate within plus or minus two percent for the public service as a whole - plus or minus 10 percent for each department - 95 percent of the time. The service-wide rate of misclassification reported for 1988/89 was 6.4 percent. The Secretariat estimates that this misclassification results in an unwarranted annual net cost of $5.3 million. According to the Secretariat, more than 30 percent of the difference in the results of the two most recent audits is accounted for by a substantial reduction in the rate of misclassification in two occupational groups. All positions in these groups had been newly evaluated with the introduction of updated classification standards.

5.40 In 1988/89 departments and agencies whose results are individually reported by the Secretariat had misclassification rates ranging from zero to 31.1 percent (see Exhibit 5.2). In 1988/89, five of 31 departments and agencies had reported misclassification rates greater than 10 percent. In comparison with 1985/86, 17 entities had reported rates suggesting improvement - 10 to a statistically significant degree; three had a reported deterioration - only one to a statistically significant degree.

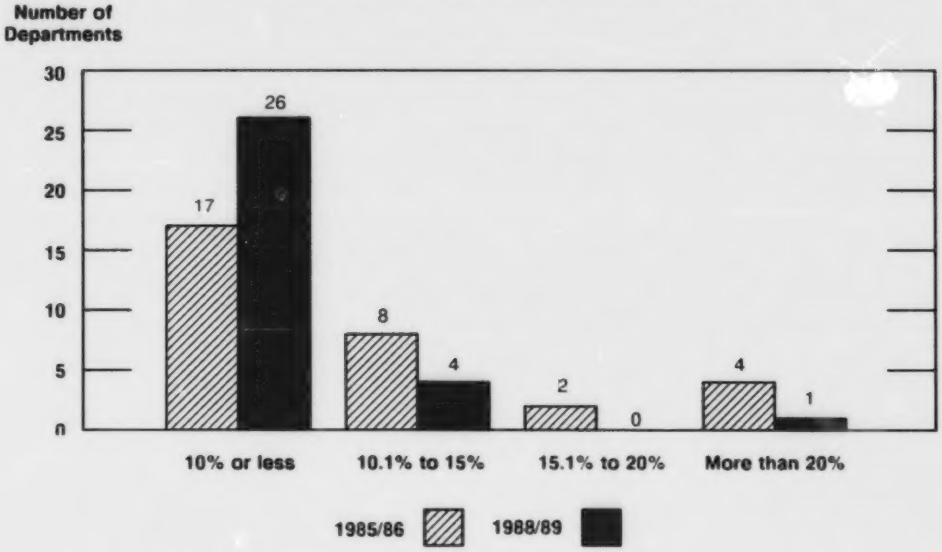
Weaknesses in the conduct of the 1988/89 audit may have affected results - a need for increased audit rigour

5.41 If the audit results for each department are to be seen as valid, and if comparisons between departments are to be made, not only must objectivity be assured, but sound methodology and prescribed procedures must be applied rigorously and consistently. Only then can the aggregated results be seen as an accurate measure of service-wide performance and valid comparisons of results over time be made. As a result of our examination in five departments and the Secretariat, we identified the following weaknesses.

5.42 **Lack of independence may compromise objectivity.** In 1984 we

Exhibit 5.2

A COMPARISON OF THE REPORTED RATES OF MISCLASSIFICATION FOR 31 DEPARTMENTS IN 1985/86 AND 1988/89



SOURCE: Treasury Board Secretariat

observed that in some departments the quality of classification decisions was audited by personnel specialists who were directly or indirectly linked to making the decisions in the first place, and expressed concern that this compromised the independence and objectivity of the audits. In 1985 the Public Accounts Committee anticipated that the internal audit units within departments would play a more significant role in future audits of the quality of classification decisions.

5.43 In the five departments in our follow-up, the 1988/89 audit of the quality of classification decisions was carried out by people responsible to the chief of classification or the head of personnel. According to the Secretariat, internal audit units were involved in this audit in only a few departments.

5.44 In our view, existing arrangements for conducting the audit do not guarantee objectivity. This view is shared by some of the classification specialists we interviewed.

5.45 Excessive sample substitution rates cloud results. The audit process relies on a statistical sampling methodology developed in consultation with Statistics Canada to ensure its reliability. Each department compiles a list from which a sample of positions to be audited is drawn. While position substitutions can be made in some cases, such replacements must be kept to a minimum in order to ensure valid results.

The Treasury Board Secretariat considers the overall rate of sample substitution by departments for the 1988/89 audit to be excessive.

5.46 The Secretariat considers the overall rate of sample substitution by departments for the 1988/89 audit to be excessive. The average rate of substitution for 31 departments was 33.1 percent.

5.47 According to the Secretariat, the more the substitution rate exceeds 20 percent the less reliable are the results. Twenty-six departments reported substitution rates in excess of 20 percent; nine reported 40 percent or higher, and two of these were well over 50 percent.

5.48 **Some audit procedures require strengthening**. Our examination indicated that certain elements of the procedures require strengthening. For example, instructions to departments require the officer responsible for the audit to spot-check audit files. However, auditors are not required to maintain detailed notes for most files - that is, for the cases considered by them to be correctly classified. This shortcoming seriously hinders one's ability to render a judgment on the quality of classification decisions made during the audit.

5.49 **The application of audit procedures requires improvement.** In the five sample departments we found many instances where either the procedures were not adhered to, or available documentation did not demonstrate adherence. For example, there was often a lack of documentation to demonstrate that job descriptions were carefully evaluated prior to interviewing the incumbent, as required by the procedures.

Reform - A Pressing Issue

The classification system is still under pressure due to the high level of classification activity and other factors. It is still seen as complex and burdensome, and "pay equity" has increased administrative costs and complexity

5.50 In 1984 we considered the question of whether there was a need for fundamental change in the job classification structure in the public service. We concluded, for several reasons, including the fact that significant opportunities existed for improvement within the current system, that fundamental change was not then necessary.

5.51 Today there are a number of factors that suggest that the time has come for fundamental change.

5.52 **Pressure on the system.** In 1984 we reported that the job classification system was under considerable pressure. This was due in part to the comparatively large number of classification actions, and attempts to raise classification levels - and pay - to facilitate recruitment, reward employees, or to solve other personnel problems. There is evidence that similar pressure exists today. For instance, the Secretariat estimates the annual level of classification activity at over 140,000 actions, including routine actions, on a government-wide basis. This is similar to the high level of activity we reported in 1984. The pressure on the system is also illustrated by Public Service Commission data for 1989 showing that 25 percent of all promotions in the public service followed from upward reclassification of the employee's position. This figure is slightly higher than that of seven years ago.

5.53 **A system still seen as complex and burdensome.** In 1983 this Office conducted a study entitled Constraints To Productive Management in the Public Service. It revealed that the classification process was perceived by managers as difficult and time-consuming and as a constraint to productive management.

5.54 In 1984 we observed that departmental managers felt no sense of "ownership" or responsibility for the classification system, viewing it as a central agency "personnel" system. We concluded that this lack of a sense of ownership was the fundamental cause of the weaknesses identified in that audit.

5.55 As reported in this Chapter, the Secretariat and departments have taken steps to improve the management and administration of job classification, and, where performance standards have been met, departments have been provided with more authority. Despite these improvements, public service managers continue to criticize the classification system and its administration. Also, while steps have been taken to increase managers' involvement in the classification process, the evidence suggests they still do not feel the required sense of ownership.

5.56 Part of the problem may be that the system is still seen as overly complex, costly, and time-consuming. Also, given the reality of financial restraint, the need for increased operational flexibility, and an ever-changing work environment, the system is still perceived as insufficiently responsive.

5.57 An illustration of the administrative burden and complexity of the system is the relatively large number of occupational groups in particular departments and agencies. For each occupational group in which a department has employees, it is required to administer a separate classification and pay plan or plans and also, in most cases, a separate collective agreement. Secretariat data shows that in late 1989:

- 35 departments or agencies, including several with fewer than 400 employees, had 20 or more groups;
- 17 departments or agencies, one with only about 1,200 employees, had 30 or more groups; and
- six departments had 40 or more groups, and one of these had 56 groups.

Some departments have sought system simplification in the context of Increased Ministerial Authority and Accountability (IMAA) but could not be accommodated.

5.58 Several major studies over a period of years have recommended simplifying the job classification system. The Secretariat has considered various options, including changing the underlying occupational group structure and adopting alternative types of classification plans and systems, including computerized systems. To date the system has not been substantially simplified.

5.59 Considerable effort has been expended in updating the classification standards since 1984. However, the Secretariat has not been able to complete the task, given its magnitude and complexity. Furthermore, emphasis was placed on revising individual standards and not on simplifying the overall system.

5.60 **"Pay equity" has added complexity and costs.** Incompatibility between the current classification system and "pay equity" legislation also supports the need for reform of job classification. The Canadian Human Rights Act stipulates that it is a discriminatory practice to establish or maintain differences in wages between male and female employees doing "work of equal value". This "pay equity" concept requires that internal relativity take account of both similar and dissimilar jobs. As a 1986 Secretariat internal report states, the current classification system "does not allow for comparisons between dissimilar jobs within different occupational groups and therefore does not facilitate the implementation of the equal pay for work of equal value concept".

5.61 To cope with this incompatibility, it has been necessary for the Secretariat to resort to separate "common" or "universal" job evaluation plans in dealing with pay equity issues. These are plans that measure the value of all jobs by the same criteria rather than by occupation-specific criteria. This has added another layer of complexity and cost to a classification system that is already both complex and costly to administer.

5.62 **A need to simplify the system.** As stated in Chapter I of our 1989 report, there is a need for more efficient and effective human resource management - a need for greater flexibility, and a requirement to empower people and streamline systems and practices - to maintain and improve the quality of services offered by public servants. The government's Public Service 2000 initiative recognizes these needs. The classification system is central to human resource management in the public service. A job must usually be classified before any other personnel action such as staffing, assignment to a collective bargaining unit or human resource planning can take place.

There is now a demand for fundamental change to the job classification system.

5.63 Among public service managers, job classification specialists, and employees as represented by public service unions, there is now a demand for fundamental change to the job classification system. Fundamental change to the classification system has also been called for in the report of the Task Force on Barriers to Women in the Public Service.

5.64 In our view, fundamental change that results in simplification of the system could help to resolve pay equity issues. It could also be a major step toward reforming the personnel management regime in the public service to make it more efficient and effective and to assist managers in meeting their program objectives. Furthermore, simplification would also be likely to contribute to a greater understanding of the job classification system by managers, and to their improved acceptance of and support for the system as an equitable means of determining the relative worth of jobs.

Special Studies

6

The Audit Regime for Crown Corporations

The Audit Regime for Crown Corporations

Main Points

6.1 The Financial Administration Act assigns prime responsibility to Crown corporations for keeping their own books and records and maintaining appropriate systems and practices. They are to report annually on the results of their operations, their financial positions and the extent to which they have met their objectives for the year. The audit regime -- primarily internal audit, annual audit and special examination -- plays an important and constructive role in providing accountability information to the corporation, government and Parliament (paragraphs 6.10 to 6.12).

6.2 The newest component of the audit regime, special examination, has been carried out in 46 Crown corporations; this Office was responsible for 29. In most cases there were significant deficiencies reported to boards of directors. The high incidence of significant deficiencies in this first five-year cycle of special examinations should not necessarily be interpreted as a sign of overall problems, but rather may be an indication of the time needed to meet the new requirements. Moreover, generally by the time the special examination reports were being finalized, management was already planning or initiating corrective action (6.13 to 6.35).

6.3 There is one general area of concern. Many significant deficiencies were related to a lack of clearly defined objectives and to a failure to measure and report on performance. There is a real need for many Crown corporations to improve their reporting on results in relation to objectives. To do so would help considerably in closing the loop of accountability to Parliament (6.36 to 6.45 and 6.93 to 6.98).

6.4 In the majority of cases where internal audits had been carried out, the examiner relied on their results. However, there were a number of cases where reliance was not possible, either because of the nature of the work by internal audit or because, notwithstanding the requirement to do so, no internal audits had been done. The Office strongly supports effective internal audit; where a corporation can demonstrate that the benefits do not justify the cost, it should seek an exemption from this FAA requirement (6.54 to 6.60).

6.5 Over the past five years, most audit reports on the annual financial statements of Crown corporations have been without reservations of opinion and without other matters reported. This is an improvement over the period before the FAA was amended (6.78 to 6.92).

6.6 Based on the experience of this first five-year cycle of special examinations, and on a review of the results of annual audits, the Office supports this new and strengthened audit regime (6.107 to 6.108).

Table of Contents

Paragraph

Introduction 6.7

- **Corporate Responsibility** 6.10
- **Audit Regime** 6.11

Special Examination Process, Results and Issues 6.13

- **General Process** 6.20
- **Planning** 6.22
  - Selecting key systems and practices (6.23)
  - Identifying suitable criteria (6.26)
- **Examining** 6.28
  - Gathering evidence (6.29)
- **Reporting** 6.31
  - Types of significant deficiencies reported (6.36)
  - Methods and types of reporting (6.46)
  - Reporting beyond the board of directors (6.49)
- **Internal Audit** 6.54
- **Timeliness** 6.61
- **Cost** 6.64
- **Special Examinations by the Private Sector** 6.66
- **Value of the Process** 6.70
- **Next Steps** 6.75
  - Prognosis (6.76)

Annual Audit Components, Results and Issues 6.78

- **Audit Reports on Financial Statements** 6.82
- **Audit Reports on Compliance with Authorities** 6.85
- **Reporting Other Matters** 6.88
- **Significance of Reported Matters** 6.90
- **Audit of Quantitative (Performance) Information** 6.93

Audit of Quarterly Reports 6.99

Conclusions 6.107

Exhibits

6.1 The Audit Regime in Crown Corporations
6.2 Crown Corporations Subject to Special Examination
6.3 Systems and Practices Most Frequently Selected for In-depth Examination
6.4 Illustration of a Special Examination Report to the Board of Directors
6.5 Form of Opinion
6.6 Types of Significant Deficiencies Reported to Board of Directors
6.7 Reporting of Significant Deficiencies
6.8 Reliance on Internal Audit in Special Examinations
6.9 Range of Costs
6.10 Annual Audit Matters Reported from 1985 through 1989

The Audit Regime for Crown Corporations

Introduction

6.7 The accountability of Crown corporations, and their monitoring and control by the government, have been addressed in previous annual reports. Those and others had pointed to a need for major amendments to the Financial Administration Act (FAA). These were introduced as Part X of the FAA, which came into effect in 1984, setting out a framework for control and accountability of all Crown corporations listed in Schedule III of the FAA, and of their wholly owned subsidiaries.

6.8 Chapter 5 of the 1989 Report provided an assessment of the implementation of the control and accountability framework for Crown corporations between 1984 and 1989 We concluded that considerable progress had been made and that all fundamental processes were in place. We stated that there was room for further progress, however, in performance measurement and reporting and that more attention needed to be given to linking stated objectives to subsequent performance. The inclusion of quantitative performance information in the corporation's annual reports which could then be subject to audit was an important provision of the Financial Administration Act, not yet implemented. Our report last year did not include an assessment of the audit regime.

6.9 This chapter sets out the Office's experience in implementing the new audit regime. It provides an assessment of special examination work by the Office over the past five years, and an overview of how well Crown corporation internal audits have discharged the requirements set out in the Financial Administration Act. It also discusses the results of annual audits of Crown corporations during the same period.

Corporate Responsibility

6.10 Part X of the FAA came into effect on 1 September 1984, giving well-defined responsibilities to the Crown corporations to which it applies. The accountability framework calls for extensive involvement by management. For example, included in these revised responsibilities is a requirement that a corporation keep books and records, and maintain systems and practices to provide reasonable assurance that assets are safeguarded and controlled, that resources are managed economically and efficiently, that operations are carried out effectively and that transactions are in accordance with specified authorities. In addition, a corporation is to report annually on the results of its operations, its financial position and the extent to which it has met its objectives for the year.

Corporate management has well-defined responsibilities within the accountability framework under the Financial Administration Act.

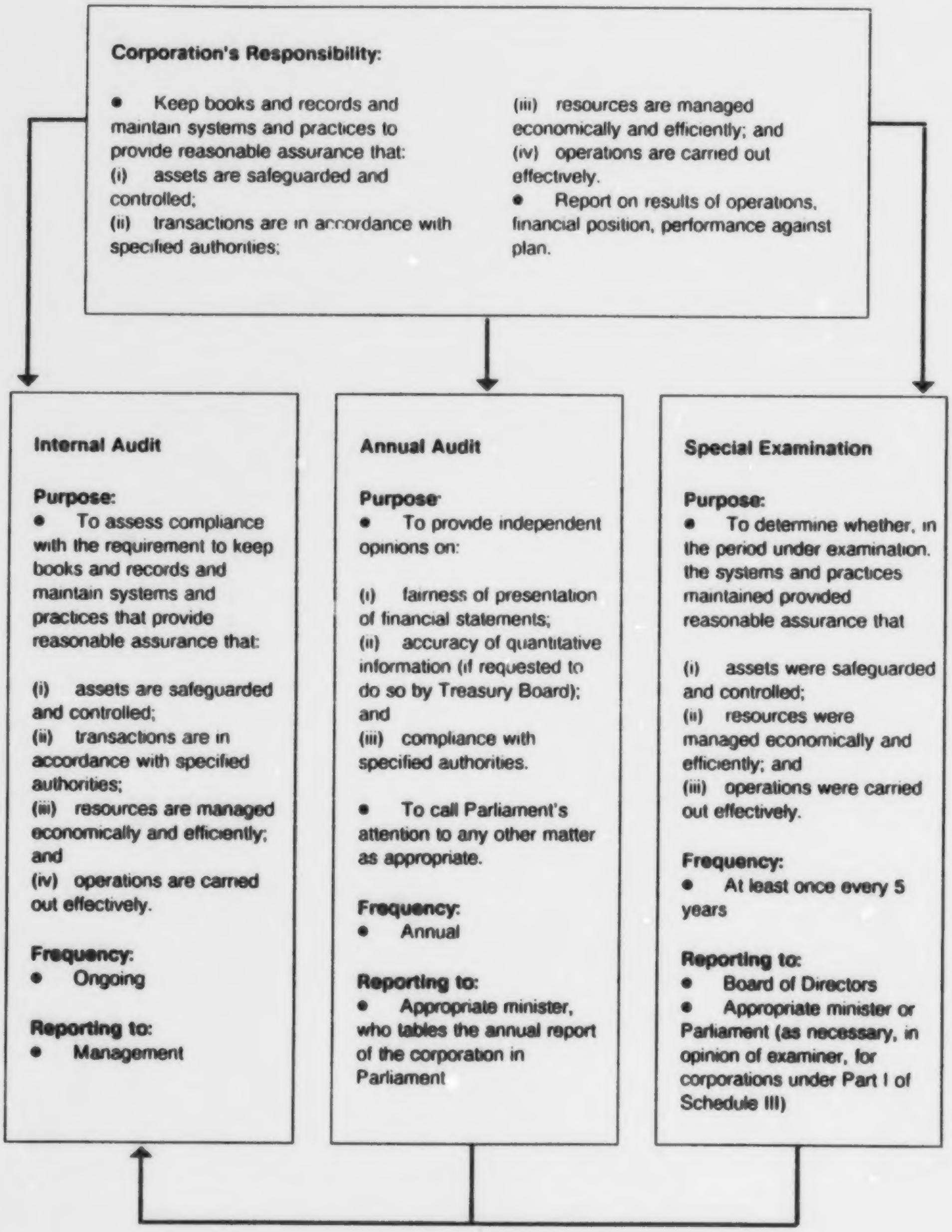
Audit Regime

6.11 A new audit regime was established as part of the broad framework for the control and accountability of all parent Crown corporations named in either Schedule III-I or Schedule III-II of the FAA, and their wholly owned subsidiaries. Exhibit 6.1 sets out the three types of audit applicable to Schedule III corporations -- internal audit, annual audit and special examination.

6.12 Internal audit is intended to assist management by reporting on its compliance with the applicable requirements in the Act. Annual audit provides an independent opinion to appropriate ministers, and through them to Parliament, on the fairness of presentation of the financial statements, on the accuracy of quantitative information where Treasury Board

Exhibit 6.1

THE AUDIT REGIME IN CROWN CORPORATIONS



Corporation's Responsibility:

- Keep books and records and maintain systems and practices to provide reasonable assurance that:
  (i) assets are safeguarded and controlled;
  (ii) transactions are in accordance with specified authorities;
  (iii) resources are managed economically and efficiently; and
  (iv) operations are carried out effectively.
- Report on results of operations, financial position, performance against plan.

Internal Audit

Purpose:

- To assess compliance with the requirement to keep books and records and maintain systems and practices that provide reasonable assurance that:

(i) assets are safeguarded and controlled;
(ii) transactions are in accordance with specified authorities;
(iii) resources are managed economically and efficiently; and
(iv) operations are carried out effectively.

Frequency:

- Ongoing

Reporting to:

- Management

Annual Audit

Purpose:

- To provide independent opinions on:

(i) fairness of presentation of financial statements;
(ii) accuracy of quantitative information (if requested to do so by Treasury Board); and
(iii) compliance with specified authorities.

- To call Parliament's attention to any other matter as appropriate.

Frequency:

- Annual

Reporting to:

- Appropriate minister, who tables the annual report of the corporation in Parliament

Special Examination

Purpose:

- To determine whether, in the period under examination, the systems and practices maintained provided reasonable assurance that

(i) assets were safeguarded and controlled;
(ii) resources were managed economically and efficiently; and
(iii) operations were carried out effectively.

Frequency:

- At least once every 5 years

Reporting to:

- Board of Directors
- Appropriate minister or Parliament (as necessary, in opinion of examiner, for corporations under Part I of Schedule III)

Reliance on internal audit to extent practicable

requires that it be audited, on compliance with specified authorities, and on any other matters as appropriate. The special examination provides an independent opinion to the board of directors on whether the necessary systems and practices provide the reasonable assurance required by the Act.

Special Examination Process, Results and Issues

6.13 The most significant new audit requirement is that a special examination of a parent Crown corporation and its wholly owned subsidiaries be carried out at least once every five years -- normally by the external auditor. The scope of a special examination generally is equivalent to that of a value-for-money audit. However, there are some important differences that make special examinations unique. The purpose of the special examination is to provide independent reporting to the board of directors on whether the corporation's systems and practices provide reasonable assurance that assets are safeguarded and controlled, that resources are managed economically and efficiently and that operations are carried out effectively.

Special examinations carried out at least once every five years are an important new audit requirement for Crown corporations.

6.14 Although the special examination report is submitted to the board of directors, provision is also made in certain cases for information to be reported to the appropriate minister and/or to Parliament, at the examiner's discretion. Reporting beyond the board of directors is not common; nonetheless, the overall special examination process is significant to members of Parliament and others interested in the accountability of Crown corporations.

6.15 Exhibit 6.2 shows that 46 corporations listed in Schedule III of the FAA, and their wholly owned subsidiaries, were subject to a special examination during the first five-year cycle -- 1 September 1984 to 31 August 1989. This Office conducted 29 of the examinations (of which 28 are complete), and 17 were conducted by private sector examiners. It should be noted that the eight corporations exempt from Part X of the FAA are not required to have special examinations.

6.16 The results discussed in this chapter are based only on the examinations conducted by this Office. However, the Office and private sector practitioners worked together in discussing the methodology for, and understanding of, the special examination process. (General comments on the private sector experience with special examinations are included later in this chapter.)

6.17 The corporations that we examined varied considerably -- in size, for example, from six to over 50,000 employees; with assets from less than $1 million to over $6.5 billion; and with expenses from negligible amounts to over $3 billion annually.

Exhibit 6.2

CROWN CORPORATIONS SUBJECT TO SPECIAL EXAMINATION

	SCHEDULE III		
AUDITOR	PART I	PART II	TOTAL
Office of the Auditor General	26	3	29
Private Sector Auditor	7	10	17
	33	13	46

6.18 These corporations also varied in the extent to which they depended on government funding through annual appropriations. During 1988, 13 corporations received no government funding; an equal number received funding well under $200 million and several corporations received over $200 million.

6.19 There were also considerable differences in the corporations' lines of business. Although such differences may necessitate variations in the way special examinations are conducted, they have not affected the intended purpose of the examinations, namely, to assist in the control and accountability of Crown corporations.

General Process

6.20 Once initiated by the board of directors, the special examination generally includes the following steps in planning, examining and reporting:

Planning:

- establishing working arrangements for the examination with the audit committee and with management;
- updating an understanding of the corporation and identifying systems and practices aimed at the safeguarding and control of assets, at the economical and efficient use of resources and at effective operations;
- determining which systems and practices should be subject to greater scrutiny, and identifying suitable criteria for examining them;
- identifying areas where reliance on internal audit may be possible; and
- preparing a plan, including criteria, to discuss with management and to present to the audit committee for its review and concurrence.

Examining:

- determining the nature and extent of evidence required;
- determining the extent of reliance to be placed on internal audit work;
- gathering appropriate audit evidence to assess whether criteria are being met; and
- assessing any identified deficiencies to determine if their significance warrants reporting them to the board of directors.

Reporting:

- preparing an opinion to the board of directors on the conclusions of the special examination, including significant deficiencies where applicable, and reporting on the extent of reliance on internal audit;
- bringing to management's attention deficiencies not deemed significant to the board but that still merit attention; and
- determining, for Schedule III-I corporations, whether there are any matters that should be reported beyond the board.

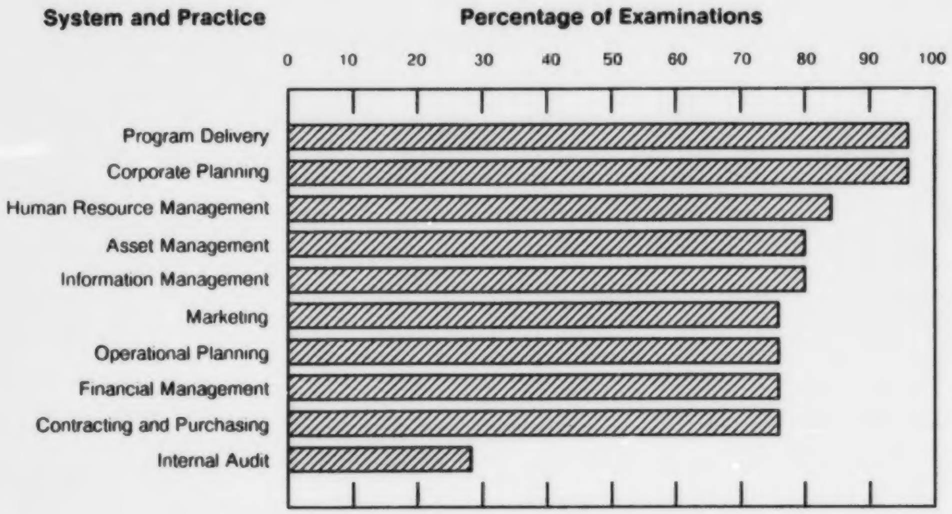
6.21 In its Public Sector Auditing Statement 4, the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants recommended standards for auditors engaged in value-for-money auditing, related to their professional qualities, the conduct of their audits and the content of their reports. The Office adheres to these standards in planning, conducting and reporting its special examinations.

Planning

6.22 In the planning phase, the examiner surveys the corporation's systems and practices, develops an examination approach and prepares a plan, including criteria, that will allow the examiner to arrive at an informed opinion about whether the systems and practices maintained by the corporation provide the reasonable assurance required. The special examination plan is submitted to the audit committee (or board of directors, where no audit committee exists).

Exhibit 6.3

SYSTEMS AND PRACTICES MOST FREQUENTLY SELECTED FOR IN-DEPTH EXAMINATION



Selecting key systems and practices

6.23 Examining all systems and practices in detail would be impractical and costly. The requirement for evidence sufficient for the examiner to provide an opinion is weighed against the cost of acquiring that evidence. The accepted approach, therefore, is to concentrate the examination on areas where deficiencies, should they exist, could be significant. The key systems and practices examined in more detail are those considered necessary to provide reasonable assurance that assets are safeguarded and controlled, that resources are managed economically and efficiently and that operations are carried out effectively.

6.24 The major systems and practices that the Office most frequently selected for in-depth review in its special examinations are shown in Exhibit 6.3.

While all systems and practices are subject to examination, the examiner selects the key ones for in-depth review.

6.25 Notwithstanding the variations among Crown corporations as noted earlier, the types of key systems and practices selected for in-depth review were highly congruent. Their proper functioning is critical in helping management to determine and communicate objectives, to determine and allocate the resources required to meet those objectives, to control the processes and to measure and report the results.

Identifying suitable criteria

6.26 Selecting key systems and practices for in-depth examination and identifying suitable examination criteria normally are parallel interrelated activities. Criteria are established at the level of a "reasonable" person's expectations. In principle, the examination criteria would be those against which management could arrive at its own reasonable assurance, and those that internal audit would use in assessing whether management had maintained appropriate systems and practices.

6.27 The proposed criteria are reviewed with management and included in the examination plan presented to the audit committee, which is responsible for reviewing and advising the board of directors on the plan and on reports. This step gives the audit committee the opportunity to consider, and concur with, both the systems and practices selected for detailed review and the criteria to be used.

Examining

6.28 In the examination phase, the primary activity is the efficient gathering and assessing of evidence, to arrive at an opinion on whether there is reasonable assurance that no significant deficiencies exist. This includes sufficient appropriate evidence on the design, operation and results of the systems and practices selected for in-depth examination, to determine whether the criteria have been met.

Gathering evidence

6.29 The major techniques for gathering evidence in a special examination are essentially the same as in other audit situations: inspection, observation, enquiry, confirmation, computation and analysis. The nature and extent of the evidence required in a special examination, however, are somewhat different given the breadth of the review.

6.30 Should the evidence indicate any deficiencies, their significance must be assessed -- that is, whether the deficiency is likely to influence decisions by the board of directors because of its effect on the quality or cost of operations, for example, or its impact on the corporation's ability to fulfil its mandate. In general, a deficiency is considered to be significant if it puts at material risk the safeguarding and control of assets, the economical and efficient management of resources, or the effectiveness of operations.

Reporting

6.31 The examiner's report encompasses all systems and practices: some are examined only in sufficient depth to determine that they are unlikely to present significant deficiencies; others, the key systems and practices, are selected for more detailed review. The FAA requires the report to include statements on:

- whether in the examiner's opinion, with respect to the criteria established, there is reasonable assurance that there are no significant deficiencies in the systems and practices examined; and
- the extent to which the examiner relied on internal audits.

6.32 The report is provided to the board of directors. In addition, in certain cases the examiner may report information beyond the board of directors to the appropriate minister and/or Parliament. Exhibit 6.4 shows an illustrative report to the board.

6.33 Section 145 of the FAA imposes a reporting restriction, in specifying that nothing in Part X of the FAA or in the regulations authorizes the examiner to express any opinion on the merits of matters of policy, including the merits of the corporation's objectives.

6.34 Exhibit 6.5 sets out the forms of opinion reported for the 28 completed special examinations (one special examination has not

---

A substantial majority of special examinations have reported one or more significant deficiencies.

Exhibit 6.4

ILLUSTRATION OF A SPECIAL EXAMINATION REPORT TO THE BOARD OF DIRECTORS

As required by Part X of the Financial Administration Act (FAA), I have carried out a special examination of the financial and management control and information systems and management practices maintained by XYZ Corporation. The purpose of my examination was to determine whether, in (the period under examination), and as required by subsections 131(1)(b) and 131(2)(a) and (c) of the FAA, the corporation maintained these systems and practices in a manner that provided reasonable assurance that:

- the corporation's assets were safeguarded and controlled;
- the financial, human and physical resources of the corporation were managed economically and efficiently; and
- the operations of the corporation were carried out effectively.

A plan for the examination, based on my survey of the corporation's systems and practices, was submitted to the audit committee on (date). The plan included the criteria to be applied in the special examination. These criteria are listed in Appendix 1.

The plan also identified those systems and practices that I considered to be essential to providing the corporation with reasonable assurance with respect to its assets being safeguarded and controlled, its resources being managed economically and efficiently, and its operations being carried out effectively (see Appendix 2). (With the exception(s) described in the following paragraph) these systems and practices were selected for detailed examination. Other systems and practices of the corporation, although covered in the survey, were excluded from detailed examination because my analysis of the significance and risks associated with them indicated that, during the period under examination, they were not critical to providing the corporation with the reasonable assurance required by subsections 131(2)(a) and (c) of the FAA.

(If there were any specific scope limitations, they would be noted here.)

My examination was made in accordance with the plan, as well as the value-for-money auditing standards recommended by the Canadian Institute of Charted Accountants. Accordingly, it included such tests and other procedures as I considered necessary in the circumstances. In carrying out the special examination, I relied on internal audits of (systems, practices, organizational components, etc.) as appropriate.

In my opinion, with respect to the criteria established, there is reasonable assurance that (except as noted below) there are no significant deficiencies in the systems and practices examined.

(Provide a full but succinct description of the nature, extent and effects of the significant deficiencies. The effects should be stated in terms of the manner in which deficiencies prevent the corporation from having reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, or that its operations are carried out effectively - as the case may be.)

Appendices (as required)

OTTAWA, CANADA AUDITOR GENERAL OF CANADA

DATE:

been finalized). Six cases, or 21 percent of the total number reported, had a "clean" opinion, which indicates reasonable assurance that there were no significant deficiencies. Three cases, or 11 percent -- shown in the Exhibit as "other" -- represent special examination reports that included no opinion. These were corporations that essentially were not operating. However, for 19 corporations, or 68 percent, the special examination reports included one or more deficiencies that the Office considered significant.

Corporations are planning or initiating corrective action to address their significant deficiencies.

6.35 If one views a clean opinion to be the ideal, then the relatively high proportion of corporations with one or more significant deficiencies may be surprising, even alarming. However, it must be noted that these are the results of the first cycle of special examinations. Given the newness of the legislation, and the changes corporations need to make to meet the new requirements, it is not necessarily surprising that one or more significant deficiencies were reported in this many corporations. Moreover, in most cases by the time the special examination reports were being finalized, management was already planning or initiating corrective action.

Types of significant deficiencies reported

6.36 What types of significant deficiencies were reported? Exhibit 6.6 classifies them under the respective statutory objectives that systems and practices of the corporation are required to address.

6.37 For this exhibit, deficiencies relating mainly to program delivery and corporate planning were identified as effectiveness issues. Examples relating to program delivery include cases where there were no procedures to measure and report on the effectiveness of programs and activities and where goals and objectives were not consistent with legislated mandates and directives. Examples relating to corporate planning include cases where objectives were not clearly translated into operational performance standards or targets, and where there was an inadequate definition of major responsibilities and a lack of clear objectives.

6.38 The heading "resources managed economically and efficiently" includes the reporting of such matters as inadequate use of work standards and work measurement systems to assess the efficient use of resources and to encourage productivity improvements, lack of career development and succession planning, no long-range plan for the replacement of facilities and no methodology for, or documentation of, cost estimates for facilities requests.

6.39 The heading "assets safeguarded and controlled" includes the reporting of matters such as inadequate inventory management along with poor definition of responsibilities for management and control, and inadequate cash management practices.

6.40 In summary, one common area of weakness was identified in special examination reports: a lack of clarity of objectives, along with inadequate measurement of and reporting on performance. Management needs clear objectives and a measure of performance in achieving those objectives as a critical component of meeting its responsibilities. If objectives are not clearly stated and the extent to which they are met is not known or reported.

Exhibit 6.5

FORM OF OPINION

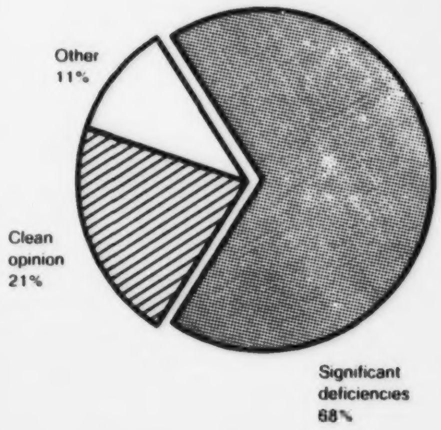
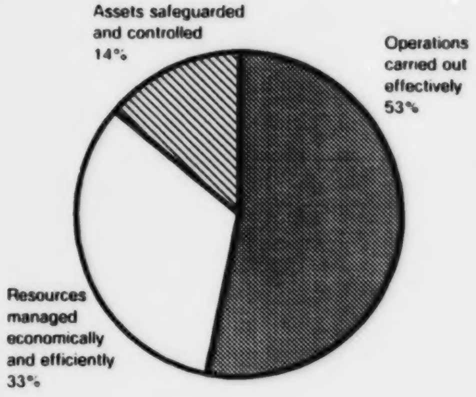


Exhibit 6.6

TYPES OF SIGNIFICANT DEFICIENCIES REPORTED TO BOARDS OF DIRECTORS



full accountability by Crown corporations cannot be achieved.

A common area of weakness identified in the special examinations relates to unclear objectives and inadequate measurement of and reporting on performance.

6.41 This special examination observation is cause for concern. Without such information, how can corporations comply with the FAA requirement that the annual report of a parent Crown corporation shall include "...a statement on the extent to which the corporation has met its objectives for the financial year"?

6.42 More than 10 years ago, we noted to Parliament the absence of this critical link in the accountability process. In 1976 this Office reported that the information in annual reports of Crown corporations was not adequate or suitable for Parliament to assess their activities. Last year we noted that annual reports rarely stated explicitly the extent to which Crown corporations had met their objectives.

6.43 It is understandable that Crown corporations operating in a highly competitive environment may be reluctant to report information that might prejudice their competitive positions. However, this concern must be balanced against the fact that all Crown corporations, by definition, are wholly owned by the government and ultimately, are accountable to Parliament. Parliament has indicated that it expects -- and requires -- information that will allow it to assess whether Crown corporations are meeting their objectives. At present, such information is generally lacking and is long overdue.

6.44 The Crown Corporations Directorate of the Department of Finance and Treasury Board of Canada, in consultation with Crown corporations, the Office of the Comptroller General and this Office, has been working on the development of guidelines to assist corporations in the preparation of their annual reports. However, to date guidelines have not been issued.

6.45 **The special examination process has identified the need for a number of Crown corporations, in conjunction with their appropriate ministers and Treasury Board, to improve the clarity of their objectives and to report, as required, on the extent to which such objectives have been met. To improve consistency for all Crown corporations, annual report guidelines should be finalized and issued.**

Methods and types of reporting

6.46 After reviewing draft reports with management and with the audit committee, examiners provide a final special examination report to the board of directors.

6.47 The special examination reports by the Office contained appendices that normally included:

- a list of the systems and practices examined in depth;
- the criteria used in the examination;
- elaboration on the significant deficiencies reported; and
- comments, where there was no reliance on internal audit, on the reasons for not relying and its implications.

6.48 In addition to the formal reporting required by the FAA, in most cases less significant matters were reported to management through such means as presentations, project reports and management letters. These sometimes included recommendations and responses by appropriate levels of management. Recommendations, where made, were usually general in nature (what needed to be done) rather than prescriptive (how it should be done), which is rightly a prerogative of management.

Reporting beyond the board of directors

6.49 Sections 140 and 141 of the FAA provide for reporting beyond the board of directors to the appropriate minister and to Parliament, where the examiner of a Crown corporation named in Part 1 of Schedule III is of the opinion that the special examination report contains information that should be so reported.

6.50 Exhibit 6.7 shows that in relatively few cases were significant deficiencies reported beyond the board of directors.

6.51 Of the 19 corporations where the Office reported one or more significant deficiencies, there were matters in five examination reports that were reported beyond the boards to the appropriate ministers. In two of those five cases, matters were reported to Parliament in the corporations' annual reports.

Five special examinations identified matters that were reported beyond the boards of directors.

6.52 Considerations in deciding whether to report significant deficiencies beyond the board included:

- whether matters were beyond the ability of management (or even the board) to address, such as ambiguous mandates or matters involving more than one entity;
- whether public funds were materially at risk;
- whether reporting beyond the board might lead to matters being addressed sooner; and
- whether matters were of particular interest to the minister and/or Parliament -- such as expressed concerns, topics of recent debate, or their respective roles in the control and accountability framework.

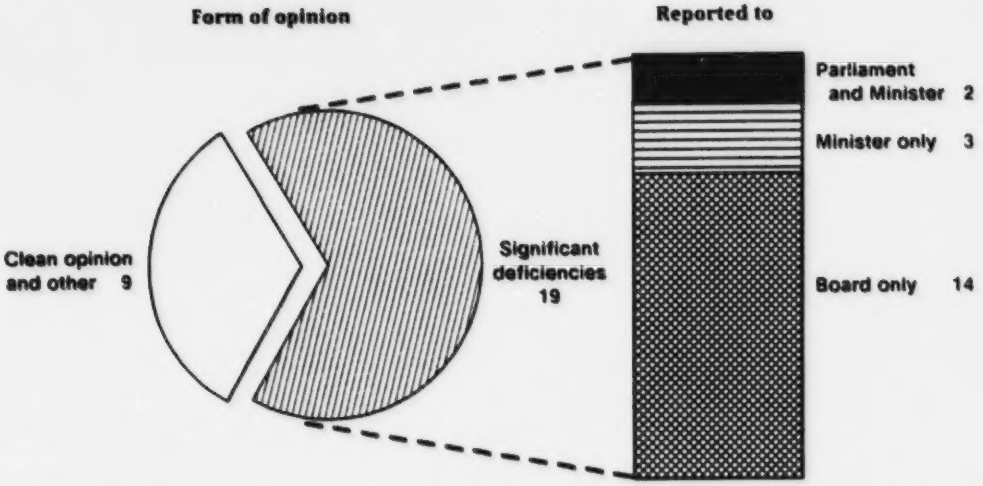
6.53 The wording of the Financial Administration Act suggests that reporting beyond the board of directors should be done on an exception basis. The Office's reporting reflects that intention and confirms the view of the Office that most matters requiring attention are within the boards' and managements' ability -- and will -- to address.

Internal Audit

6.54 Internal audit has been given a significant role -- indeed, a unique one -- in the audit regime. Crown corporations must carry out internal audits to assess whether they have maintained books, records, systems and practices as required. An exemption may be granted if, in the opinion of the Governor in Council, the costs of such audits would outweigh the benefits. The Crown Corporations Directorate of the Department of Finance and Treasury Board of Canada has prepared

Exhibit 6.7

REPORTING OF SIGNIFICANT DEFICIENCIES



guidelines setting out the considerations in granting such an exemption, and the procedures for seeking one. Because of the importance of internal audit, exemptions have been subject to appropriately careful and stringent review. Six exemptions have been granted so far by the Governor in Council, primarily because the corporations' sizes, and the nature of their activities, did not warrant their having internal audit functions or contracting out internal audit projects.

Internal audit has been given a significant role in the audit regime and the Office strongly supports the presence of effective internal audit.

6.55 In carrying out a special examination, the examiner is required to rely, to the extent considered practicable, on any internal audit of the corporation conducted pursuant to the requirements of the FAA. There has been good co-operation and co-ordination between internal auditors and examiners, which has facilitated the work of the examiners; however, this is not the same as "reliance". Reliance essentially means that, after selecting areas to examine in greater detail, the examiner is able to use internal audit work to replace that which the examiner would need to perform to provide the evidence needed for the opinion expressed. Exhibit 6.8 illustrates the extent of the Office's reliance on internal audit.

6.56 Fourteen of the corporations we examined had either maintained an internal audit function or contracted out internal audit to private sector practitioners. We placed from limited to extensive reliance in 10 instances, either on previous work or on work concurrent with ours in some component of the special examination scope. No reliance was placed on the remaining four, as the scopes of the internal audits were not consistent with those of the special examinations.

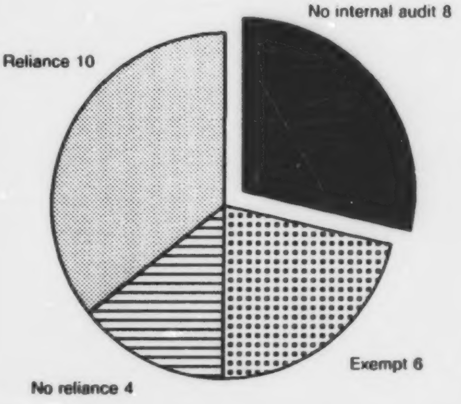
6.57 There were eight corporations that had not carried out internal audits. Three of those were inactive. A reason given for the others was that, in management's view, the size and nature of the corporation did not warrant having internal audit.

6.58 This Office strongly supports the presence of effective internal audit in Crown corporations. Not only is it one of managements' main tools to help ensure the maintenance of adequate systems and practices, but it contributes to a solid framework for control and accountability to government and Parliament.

6.59 Management responsibilities, internal audits to assess management's compliance, and periodic special examinations are intended to work in concert. Based on the special examinations by this Office, improvements to internal audit are needed in a number of Crown corporations. We expect that co-ordination of internal audit plans and activities with those of examiners will improve in the future. In addition, as internal audit becomes more effective, examiners will place greater reliance on it.

Exhibit 6.8

RELIANCE ON INTERNAL AUDIT IN SPECIAL EXAMINATIONS



6.60 Where internal audits have not been carried out in accordance with the Financial Administration Act, the corporations should assess the benefits to be derived and establish effective internal audit where benefits are expected to exceed costs, or, alternatively, seek an exemption from this requirement.

Timeliness

6.61 The Financial Administration Act calls for special examinations to be carried out "...at least once every five years". The first five-year period started on 1 September 1984, when Part X of the FAA became effective. Some special examinations were begun in 1985 and most were completed in two years or less. Two examinations took more than four years, because projects were conducted in sequence rather than concurrently.

6.62 One examination has not yet been completed, as the corporation has undergone extensive reorganization. The corporation's decision to delay the completion of the special examination beyond the FAA five-year requirement was reported to the appropriate minister, and then to Parliament in the form of a reservation of opinion on compliance with the FAA, as part of the annual audit of the corporation's financial statements.

6.63 Final reports on 11 examinations were not submitted to boards of directors before the FAA's required deadline. Reasons for this included the timing of the boards' requests for the special examinations, the newness of the process and the resulting impact on scheduling and resourcing, the attention given to reviewing results with management and with audit committees, and the scheduling of the board meetings.

Cost

6.64 Exhibit 6.9 shows that the costs of special examinations carried out by the Office ranged from less than $100,000 each, for five relatively small corporations, to over $1 million for each of three large corporations. The average duration of a special examination was just over twice that of an annual audit of the financial statements. The average cost, $394,000, was just under three times the cost of an annual audit, reflecting the comparative breadth and complexity of the areas examined and the consequent involvement of more people at senior levels.

6.65 These costs include all Office costs -- direct, overhead and services provided without charge to the Office -- but do not include the time spent and costs incurred by Crown corporations. Costs incurred by the Office in carrying out special examinations are not charged to the corporations; rather, they are part of the Office's overall funding by parliamentary appropriation. The costs of completed special examinations, along with those relating to annual audits, are published annually in the Report of the Auditor General.

Private sector examiners of Crown corporations appear to have experiences similar to those of the Office.

Special Examinations by the Private Sector

6.66 During the past several years there has been a sharing of information, between private sector auditors and this Office, on the general approaches followed, on the form of reporting and on common problems encountered. This has allowed for a degree of consistency in the approach to special examinations. We have noted that the results set out in this chapter apply only to the special examinations conducted by this Office. To determine whether special examinations by private sector auditors had followed a similar process, we asked for their views in a general survey.

Exhibit 6.9

RANGE OF COSTS

Cost (Dollars)	Special Exams	Annual Audits
Less than 100,000	5	16
100,000 - 500,000	15	12
500,000 - 1,000,000	5	0
Greater than 1,000,000	3	0
	28	28
Average Cost	*$ 394,000 (once every five years)*	*$ 136,000 (annual)*

6.67 Based on the survey results and on our discussions with practitioners, we have the following comments:

- The general process set out by the Financial Administration Act has been followed (conducting a survey, preparing a plan with criteria, submitting a report similar to the illustration earlier in this chapter).
- Systems and practices selected for in-depth examination generally were of the type set out in Exhibit 6.3.
- We understand that no corporation had sought an exemption from internal audit. Reliance was placed on internal audit to the extent possible.
- In some cases, the criteria used were general in nature and few in number; in other cases, criteria used were more specific and numerous.
- Although the majority of special examination reports did not include significant deficiencies, some did. We are aware that

one special examination was reported beyond the board to the appropriate minister and that in no case did the examiner conclude that the information in the special examination report should be brought to the attention of Parliament through the corporation's annual report.

- The boards responded favourably to the findings and conclusions of the examinations.
- In several corporations, management had prepared statements of their effectiveness, commonly referred to as "management representations". The auditors had added a statement to the special examination reports, commonly referred to as an "attestation" to the fairness of these management representations.

6.68 The development of management representations and auditors' reports on them, while not changing the fundamental nature of and requirement for special examinations, is of considerable interest.

In several cases, management has provided representations upon which the examiner attests.

6.69 Practices of both this Office and private sector practitioners have included extensive involvement by management and by internal audit. Indeed, management's views, expressed formally and informally, are sought and considered throughout the entire examination process. Nevertheless, the more formal involvement of management, in carrying out self-assessments and preparing representations, is viewed by private sector practitioners and the Office as important in its own right, as well as a valuable aid to the special examination process -- one that has the potential to increase its efficiency.

Value of the Process

6.70 It may be premature to draw conclusions about the overall value of the special examination process, given that this was only the first cycle. Such an assessment may be more reasonable after the second or third cycles.

6.71 Based on reactions of members at board meetings, on a number of interviews, on correspondence received, and on comments about the process published in a number of annual reports of corporations, it appears that board members have viewed the process and its results as very worthwhile in confirming whether systems and practices were satisfactory, and in identifying areas that needed attention.

Boards of directors generally found the special examination process to be of value.

6.72 As we reported last year, many saw the process as important in helping the board to hold management to account. Furthermore, some viewed the special examination as a valuable contribution to maintaining the accountability of Crown corporations. At least one board was concerned with the cost of the examination and hoped that it would be lower in the future. In addition, it was noted that the management time required for the examination was extensive but that this, too, might be reduced next time.

6.73 Boards of directors have taken considerable interest in the special examination reports. Some boards requested in-depth briefings from examiners, while others left that task to audit committees. In most cases, a response by management was part of the presentation to the audit committee and/or the full board.

6.74 In almost all cases, the boards responded favourably to the findings and conclusions of the special examinations. There was general agreement with the examination reports and a stated intent to take any corrective action necessary.

Next Steps

6.75 The second cycle of special examinations is already under way; it began once the first special examinations were reported. We have learned from our experience and, to ensure greater productivity and effectiveness in future examinations, we have initiated a number of projects, including:

- an examination of the methods used to select systems and practices for in-depth review;
- an assessment of the criteria used, to ensure that examinations of similar systems and practices are consistent;
- an analysis of the significant deficiencies reported, to develop a more consistent approach to identifying and reporting them;
- a review of the extent of reliance on internal audit and the merits and means of increasing reliance; and
- a review of appropriate means of communicating with management, and of ways to improve such administrative processes as scheduling and resourcing of special examinations.

Prognosis

6.76 The starting point for subsequent examinations may be a follow-up with the corporation to identify changes since the last examination and, if significant deficiencies were reported, an assessment of the corporation's efforts to address them. As management responds to the findings of the last examination and continues to improve the means needed to manage the corporation in an economical, efficient and effective way, we expect that less effort will be needed to perform the examinations. Moreover, we look forward to working more closely with internal auditors in our planning of special examinations, and to placing greater reliance on their work.

6.77 As examiners become more experienced in special examinations, and as training and methodology continue to develop, we anticipate greater consistency and efficiency in the way systems and practices are examined.

Annual Audit Components, Results and Issues

6.78 Each parent Crown corporation subject to Part X of the FAA is required to prepare annual financial statements for itself and for any wholly owned subsidiaries, in accordance with generally accepted accounting principles as augmented or supplemented by regulations. The objective of auditing these annual financial statements is to prepare a report to the appropriate minister, including an audit opinion on the fairness of the financial statement presentation and an audit opinion on whether transactions that have come to the auditor's notice in the course of the examination were in accordance with specified authorities. The report also identifies any other matters within the scope of the audit that should be brought to Parliament's attention. The corporation's annual report, including the auditor's report, is required to be tabled in Parliament by the appropriate minister within a prescribed time, making the information part of the public record. In addition, Volume III of the Public Accounts -- The Annual Report to Parliament on Crown Corporations and Other Corporate Interests of Canada -- includes the financial statements, annual auditors' reports and other information on Crown corporations.

6.79 In addition to these three components of the annual audit report -- related to financial statements, to compliance with specified authorities and to any "other matters" -- there is one that relates to quantitative (performance) information, described later in this chapter.

6.80 As shown in Exhibit 6.10, since 1984 there have been issues reported in only 18 (or about 10 percent) of 169 audit reports. These audit reports relate only to those Crown corporations where the Office is the appointed auditor, and exclude those that are exempt from the provisions of Part X of the FAA.

6.81 To assist the Public Accounts Committee in dealing with such reported matters, they are also summarized in the Audit Notes chapter of the annual Report of the Auditor General, the same year that they are individually reported and tabled in the House of Commons.

Audit Reports on Financial Statements

6.82 For some time, audit reports on the financial statements of Crown corporations have made reference to fair presentation in accordance with generally accepted accounting principles. However, until the FAA was amended in 1984 this was not a legal requirement for Crown corporations.

6.83 Over the five-year period, there have been six audit reports that have cited a lack of fair presentation of financial statements. These reservations of opinion, for the most part, could be categorized as failures to apply generally accepted accounting principles, and were related to such matters as:

- overstatement of receivables;
- depreciation expense charged inappropriately to contributed surplus; and
- pre-project costs deferred rather than expensed.

6.84 Although, in most cases, audit opinions on corporations' annual financial statements are without reservation, readers should be aware that when an opinion is reserved it is a clear signal that a problem exists and that corrective action is needed.

Exhibit 6.10

ANNUAL AUDIT MATTERS REPORTED FROM 1985 THROUGH 1989

						TOTAL	
Type of Report	1985	1986	1987	1988	1989	Number	Percentage
Corporations without reservation (clean opinions)	28	32	31	30	30	151	89.3
Corporations with reservation of opinion or "other matters" reported	7	4	2	3	2	18	10.7
TOTAL	35	36	33	33	32	169	100.0
Type of Matter Reported							
Reservation of opinion on financial statements	2	2	0	1	1	6	26.1
Reservation of opinion on compliance	2	2	1	3	1	9	39.2
"Other matter" reported	7	0	1	0	0	8	34.7
TOTAL	11*	4	2	4*	2	23	100.0

(* Note: The number of matters reported in 1985 and 1988 exceeds the number of entities since, for some entities, there was more than one matter reported).

Audit Reports on Compliance with Authorities

6.85 The FAA requires that each corporation maintain systems and practices capable of providing reasonable assurance that its transactions, and those of each subsidiary, are in accordance with the FAA, the regulations, the charter and by-laws of the corporation or subsidiary, and any directive given to the corporation. As part of the annual audit requirement, the auditor's report includes an opinion on whether the transactions that have come to the auditor's notice have been in compliance with such authorities.

6.86 Nine reservations related to compliance have been issued in auditors' reports from 1985 through 1989. They include issues such as:

- activities carried on outside the powers of the corporation;
- failures to comply with the FAA; and
- ambiguity in the wording of the authority.

6.87 Clear and well understood corporate objectives that reflect the corporation's legislated mandate are important elements in helping to ensure that corporations carry out their operations according to expectations, and in compliance with authorities.

Reporting Other Matters

6.88 "Other matters" have been brought to Parliament's attention through audit reports in eight cases. They include:

- managing financial resources without due regard for economy;
- failure to include the costs of sites in construction funding proposals, and failure to obtain approval for additional funds needed to cover shortages; and
- failure to ensure that appropriate controls were being exercised by the board of directors.

6.89 The provision in the FAA for reporting such matters, though exercised judiciously and rarely, is an important element of the annual audit requirements. This "residual" type of audit reporting provision allows any issues not specifically addressed in the opinion on the financial statements, or in the opinion on compliance, to be brought to the attention of the appropriate minister and Parliament.

Significance of Reported Matters

6.90 In ninety percent of cases, there have been no reservations of opinion and no "other matters" reported. In those cases where such matters were reported, they related to issues that were entity-specific, rather than widespread or indicative of a weakness in the accountability framework.

For annual audits, in most cases there were no reservations of opinion and no other audit matters reported. This represents an improvement.

6.91 A reservation of opinion on the financial statements in the private sector, depending on its nature, is usually given considerable attention and may have dire financial and/or management consequences, for example on share values and possible changes in management. The same importance and attention should be given in the public sector. One could argue that even greater urgency should attach to matters reported by auditors of Crown corporations, since these corporations are generally operating in trust for the Canadian people, represented by Parliament.

6.92 Improvements have been made over the situation we reported in 1982. The decline in reservations of opinion results, in part, from the enhanced accountability framework for Crown corporations established by the amended FAA, which requires that generally accepted accounting principles be followed. Also, management-initiated improvements, the work of audit committees in their oversight role and the greater role of internal audit in Crown corporations have all undoubtedly contributed to the overall improvement.

Audit of Quantitative (Performance) Information

6.93 The section of the FAA dealing with the auditor's annual report stipulates that Treasury Board may require the audit of quantitative performance information that it has required a parent Crown corporation to include in its annual report.

6.94 In addition, the FAA sets out related reporting requirements, namely that the annual report of a parent Crown corporation shall include "...such quantitative information respecting the performance of the corporation, including its wholly owned subsidiaries, if any, relative to the corporation's objectives as the Treasury Board may require to be included in the annual report".

6.95 Treasury Board has not yet required that corporations include specified quantitative performance information in their annual reports, or that such information be audited.

6.96 However, Treasury Board has been requesting individual corporations to develop and/or improve performance measures for key corporate activities as part of the corporate planning process. This approach has been adopted because performance indicators are viewed as an important management tool and, as such, are a management responsibility. Indeed some corporations do provide, in their annual reports, certain quantitative performance information -- for example, on delivery service, on output production and financial results compared to plans, and on passenger usage and satisfaction. The Office strongly supports these efforts.

Many corporations need to pay additional attention to measuring and reporting their performance against their objectives.

6.97 Improved measures of performance, and the reporting of actual performance using such measures, will make corporations' annual reports more relevant. Along with reporting on the extent to which objectives have been achieved, this important area needs additional attention.

6.98 **Where quantitative performance information is not being reported at present, corporations, in conjunction with their appropriate ministers and Treasury Board, should identify appropriate ways to measure and report it in their annual reports. Although an optional requirement of the Financial Administration Act, this information should be subject to audit.**

Audit of Quarterly Reports

6.99 Part X of the FAA calls for Crown corporations to prepare certain reports -- namely, corporate plans, capital budgets and, for parent Crown corporations named in Part 1 of Schedule III, operating budgets. Summaries of these reports and amendments thereto, once approved by the appropriate minister, are tabled and become public documents.

6.100 To encourage the timely submission and approval of Crown corporation reports, subsection 152(1) of the FAA calls for the President of the Treasury Board to table in Parliament, each quarter of each calendar year, a report on when the appropriate ministers have tabled the summary reports and the annual reports of Crown corporations.

6.101 Related to this reporting requirement is an audit provision, set out in subsection 152(2), stating:

> The accuracy of the information contained in each quarterly report shall be attested by the Auditor General of Canada in his annual report to Parliament.

6.102 The Auditor General's work includes a review of the systems and procedures used by Treasury Board to monitor the tabling of the summaries and annual reports, a verification of the information contained in the quarterly reports, and such other tests and procedures as considered necessary in the circumstances.

6.103 The results of such work are reported in an audit opinion by the Auditor General which takes the following form:

> I have concluded that the four quarterly reports contain all the required information about the timing of tabling, by the appropriate ministers, of Crown corporations' annual reports and summaries (and amendments to them) of corporate plans, capital budgets and operating budgets, and in my opinion, the information contained in the quarterly reports is accurate in all significant respects.

This is included as Appendix D to this Report.

6.104 For the current year, and the four preceding years, the audit results have not disclosed any significant inaccuracies in these quarterly reports.

6.105 It should be noted that the dates set out in the quarterly reports are shown accurately, but they did not all conform to legislated deadlines. In Chapter 5 of our 1989 Report, on the implementation of the framework for the control and accountability of Crown corporations, we reported that the quantity and timeliness of information to Parliament had improved significantly, compared with the period before the Financial Administration Act was amended. Nevertheless, in 1988 only 63 percent of corporate plan summaries and 52 percent of budget summaries were tabled before the statutory deadline.

6.106 In 1989, 76 percent of corporate plan summaries and 76 percent of budget summaries were tabled before the statutory deadline. We hope that the considerable improvement this reflects will continue and that full compliance with the statutory deadlines will be achieved.

Conclusions

6.107 A number of Crown corporations have embraced the FAA requirements regarding internal audits, but others have still not done so. This has resulted in, among other things, a lower level of reliance on internal audit in the conduct of special examinations.

The new audit regime contributes to the accountability of Crown corporations.

6.108 In general, the FAA requirements for internal audit, annual audit and periodic special examination are deemed to constitute an appropriate and worthwhile audit regime for Crown corporations -- one that contributes to their overall accountability.

7

Values, Service and Performance

Values, Service and Performance

Main Points

7.1 This is a study of Public Service values. Four departments participated. We interviewed 200 people across the country, including managers, staff, senior executives and politicians. We looked for insights into what helps people perform well at work, what value dilemmas prevent this, and how such dilemmas can be resolved (paragraphs 7.6 and 7.19).

7.2 Improving service and performance in the Public Service is a function not only of systems and structures, but also of people and values. Values influence which tasks people will do with care, which they will do superficially, and which they will try to avoid. The role of values has received little attention. Managers tend to give more attention to systems and structures (7.13).

7.3 We distilled three aspirations that people at all levels and locations consistently expressed. People value making a contribution; they want to make a difference, have an influence, and master some task or activity. People value being recognized and rewarded for their contribution; they look for respect and appreciation. People value belonging to a group, especially if they consider that group to be successful (7.37).

7.4 Dilemmas arise when an organization values primarily control and compliance, while its people value commitment and caring. These dilemmas between the hard and soft elements of management constrain people from achieving results (7.7 and 7.42).

7.5 We examined some work units that have resolved such dilemmas. They manage through understanding, balancing the hard and soft elements of management. They are islands of innovation. None of them was able to develop this balanced organizational culture quickly. It took five to ten years of persistent effort, sometimes over two or three generations of leaders. Ensuring continuity in leadership approach seems to be a crucial element in the survival of these islands of innovation (7.78 and 7.88).

Table of Contents

Paragraph

Introduction 7.6

Previous Studies 7.9
A flexible mindset is an important attribute (7.12)

Values Defined 7.14
A value expresses a vision of how the world should be (7.16)

The Approach to this Study 7.17
We interviewed about 200 people (7.19)
Our study does not provide absolute answers (7.20)

What Helps People Perform Well at Work? 7.21

Personal Commitment 7.22
Personal commitment of public servants is an important asset (7.24)
Satisfaction can be increased through insightful work design (7.25)

An Effective Public Service 7.26
Workers are unwilling to blindly follow rules (7.29)
Managing through understanding means fewer directives and more discretion (7.33)

Aspirations of Public Servants 7.37
People value making a contribution (7.37)
People want to make a difference (7.40)

Dilemmas that Prevent People from Performing Well 7.42

Differing Interpretations of Work Requirements 7.43
Employees value one thing, organizations another (7.45)
What people see depends on what they believe (7.51)

Demands of Different Publics 7.53
People are unaware of each others' pressures and challenges (7.54)
Helping people understand better helps them perform better (7.56)

Table of Contents (cont'd)

Paragraph

Controls Versus Innovation 7.57
- Controls without corresponding attitudes are inadequate (7.59)
- Controls drive out commitment (7.60)

Dilemmas Can Be Resolved 7.67

Some Solutions that Work 7.68
- Service improves through collaboration and innovation (7.72)

Learning from History 7.74
- Integrity is an important factor (7.75)

Islands of Innovation 7.77
- Innovative groups use controls, but also commitment (7.78)
- Good leaders empower their people (7.83)
- Continuity in leadership approach is crucial for successful change (7.88)

Summing up 7.89
- Improving performance is a function not only of systems, but also of people (7.90)
- People's potential is greater than their performance (7.92)

Exhibits

7.1 Working Together Effectively
7.2 Interpreting Work Requirements: the Field
7.3 Interpreting Work Requirements: Headquarters
7.4 Interpreting Work Requirements: Central Agencies
7.5 Views about Service from Politicians
7.6 The Case of the Paris Traveller
7.7 Suggestions from a Minister
7.8 Resolutions to Dilemmas
7.9 The "Quality of Working Life" Project

Values, Service and Performance

Introduction

7.6 This Chapter is about Public Service values. It seeks answers to three questions. What helps people perform well at work? What value dilemmas prevent people from giving good service and performance? How can such dilemmas be resolved?

How can value dilemmas be resolved?

7.7 The ability of organizations to achieve results rests on tangible elements such as plans, budgets, materials, contracts and procedures. It also rests on intangibles such as commitment, caring, loyalty, enthusiasm and innovation. While less is known about measuring these soft elements of management, they are nevertheless influential. Our study attempts to understand how service and performance are affected when there is an imbalance between the two. For example, what dilemmas arise when an organization values primarily control and compliance, while its people value commitment and caring? We also wanted to explore examples of successful dilemma resolution in our study. How do people respond when management understands the need for balance? How do they perform when management emphasizes not only control and compliance, but also commitment and caring?

7.8 To gain insights into these questions, we talked with managers, staff, senior executives and politicians. We also observed public servants at work across Canada.

Previous Studies

7.9 Our study evolved from two earlier studies. In our 1983 Chapter on Constraints to Productive Management we discussed political priorities, administrative rules, and disincentives. We found that these constraints produced a negative effect on many managers' attitudes and behaviour. We also found, however, that some managers performed remarkably well in spite of the constraints.

7.10 This led us to a further inquiry to determine the shared attributes of well-performing organizations. Hence our 1988 Chapter on Attributes of Well-Performing Organizations. We found that well-performing organizations depend on people, leadership, innovation and client orientation.

7.11 Underlying these previous studies is an unanswered question. What drives managers in some organizations to constantly try to improve performance? We concluded this has to do with values.

A flexible mindset is an important attribute

7.12 We pointed this out at the end of our 1988 chapter:

> In the well-performing organizations people hold values that drive them to always seek improvement in their organization's performance. When conditions change, they adjust their methods, not their values. Because of this orientation toward performance and adaptability, the organization performs well even in a changing environment. This mindset may be the most important attribute of all.

7.13 The conclusions from our earlier work guided us in this study. We emphasize them again. Improving performance in organizations is a function not only of systems and structures, but also of people and values. Values influence which tasks people will do with care, which they will do superficially, and which they will try to avoid. Yet the role of values in the improvement of performance has received little attention by most managers. Managers have tended to give more attention to systems and structures than to what employees value.

Values influence performance.

Values Defined

7.14 The term values has many meanings. One set of definitions takes an individual perspective: an important life goal or standard of behaviour for a person; the most important elements in a person's attitudes and beliefs.

7.15 Another set of definitions comes from organizational literature and practice: how the world should be; a sense of what ought to be; an organization's general goals, ideals and standards.

A value expresses a vision of how the world should be

7.16 The Public Service uses values in this second sense. Many departments are engaged in values initiatives and some have developed value statements: "We respect the dignity of individuals..." "Our strength is our staff..." "We believe in managing with openness and integrity..." "We are proud of the service we render..." "We respect the public we serve..." In this study, we use values in the same sense as the Public Service does. We define values as ideals that are important to people in organizations and that are worth striving for. A value expresses a vision of how the world should be.

The Approach to this Study

7.17 In our study, we looked for departments or groups within departments that have become aware of dilemmas resulting from value differences. We looked particularly for situations in which dilemmas have affected service and performance. We were most interested in those groups that have made attempts at resolving them.

7.18 We began by discussing the study and its purpose with deputy heads of several departments. We wanted access to their employees at all levels and in all parts of the country. The deputy heads supported the study. They hoped to gain some insights from it to better understand their people and organizational culture. The departments that participated in this study included Employment and Immigration Canada, Correctional Service Canada, Fisheries and Oceans Canada, and Revenue Canada-Taxation.

Values are ideals that are important to people.

We interviewed about 200 people

7.19 We interviewed about 200 people across the country and observed many of them at work: from deputy ministers and other executives at headquarters, to program managers, secretaries and clerks in regions, districts and small government outposts. We discussed with them their work, their interrelationships with colleagues and the public, their views of what others value in the work environment, and the elements in their job they themselves value. We did not observe a representative sample of public servants. We purposely chose sites that valued the soft elements of management. As part of our interviews, we also saw a number of politicians.

Our study does not provide absolute answers

7.20 We identified the views that were most prevalent and most strongly held. We also identified dilemmas among people at different levels and locations. And we discuss examples of successful resolution of such dilemmas. Our observations result from the work we did. Yet we do not provide absolute answers. We describe what we observed and invite readers to discuss and test our observations in their own work environment.

What Helps People Perform Well at Work?

7.21 Conventional wisdom says that people work for money, which then allows them to meet their needs and do what they really enjoy. This idea is embedded in "compensation", the term used to describe salaries and wages in the Public Service. It implies in part that people have to be "compensated" for something they would rather not do: work. Yet we also know people who work without pay. They give their time freely to community or religious organizations, to volunteer groups or to coaching assignments.

Personal Commitment

7.22 When people commit to a cause, they become engaged; they work. They seem to work better, and get more satisfaction from their work, the more committed they are.

People work better the more committed they are.

7.23 This is as important for the Public Service as for the private sector. Perhaps more so. The groups we examined are not selling a product. They have few "customers" who, if they don't like the service, can go to a competitor. Part of their work is to impose unpopular programs on unwilling citizens. Taxation is an example. The Public Service also deals with entitlements and rights that citizens can claim from government and society, such as financial and social assistance. In all this, the Public Service should strive to satisfy 100 percent of its "market". A market share of even 90 percent is considered inadequate.

Personal commitment of public servants is an important asset

7.24 In such an environment, the personal commitment of public servants is an important asset. Personal commitment arises partly from the perceived merit of work, and partly from the intrinsic satisfaction work can offer to people's pride and integrity.

Satisfaction can be increased through insightful work design

7.25 Satisfaction can be increased through insightful work design and management. It can also be increased by removing constraints. One person summarized it: "What stops them is not lack of motivation, but forced demotivation. I say 'forced' because it is the organizational climate that demotivates them."

An Effective Public Service

7.26 Another factor that influences people to perform well is an effective Public Service itself. What characterizes it? An effective Public Service would be responsive to the public, cost-effective vis-à-vis taxpayers, loyal to government priorities, and satisfying for public servants themselves. This satisfaction would cover a broad range of needs from compensation to career development.

7.27 Management in the Public Service, as in most large organizations, depends on bureaucratic structures. These include a formal hierarchy, management by procedures and control, and close monitoring of compliance. This often results in impersonal working relationships. The "control and compliance" approach assumes that the more impersonal the organization, the more predictable it will be, and that predictability leads to efficiency.

7.28 Formal organizational structures are also consistent with principles of equality and accountability. Government must answer for any special or individualized services that a member of the public receives. Hence the tendency in the Public Service to value a formal control and compliance system.

Workers are unwilling to blindly follow rules

7.29 There are limitations and contradictions to this approach. A formal system, particularly when it is detailed and complex, is not always flexible. Nor is it responsive to changing circumstances. Yet, the work environment and people's needs are constantly changing. Technology forces new processes, and the public demands quick responses and individualized service. In addition, workers are unwilling to blindly follow rules. They need flexibility to combine career and family. Young employees especially argue that work should provide an opportunity for self-expression.

7.30 It is of course possible to develop directives even for increasingly detailed and complex processes. But they may be out of date before they are implemented. Reality runs away from rules.

Reality runs away from rules.

7.31 The formal systems approach satisfies, at least partly, the Public Service's need to be cost-effective and to observe government priorities of fairness and accountability. It satisfies much less the need for employee responsiveness and satisfaction. For this, a more productive balance between managing by control and compliance and managing by caring and commitment seems to offer better prospects.

7.32 Such a balance would require managers to understand the practice and effects of both sides. One side is systems oriented and depends on control and compliance. The other side is people oriented and depends on caring and commitment. The productive balance would be achieved by "managing through understanding".

Managing through understanding creates balance.

Managing through understanding means fewer directives and more discretion

7.33 Managing through understanding means fewer directives and more discretion wherever possible. It means creating a productive balance for any particular circumstance. It means recognizing committed people who possess knowledge and judgment. And it means making persistent efforts to develop and retain such people.

7.34 A Public Service with such an orientation would no doubt be a strong challenge for its managers. It would also be a strong challenge for and influence on its employees. It would help them to offer both good service and high performance.

7.35 A note of caution is in order. Our study is not advocating that the Public Service abolish all controls and directives. Rather, it is suggesting that the Public Service satisfy people's aspirations, while retaining controls that are essential for fairness and accountability. The aim is not polarization but balance.

7.36 We said that personal commitment and an effective Public Service help people perform well at work. Public servants' own aspirations, too, help them perform well.

Aspirations of Public Servants

People value making a contribution

7.37 From our interviews and observations we distilled three aspirations that people at all levels and locations consistently expressed:

> People value making a contribution. They want to make a difference, have an influence, and master some task or activity.
>
> People value being recognized and rewarded for their contribution. They look for respect and appreciation.
>
> People value belonging to a group, especially if they consider that group to be successful.

People need recognition.

7.38 Somebody put it this way: "People want to do a decent job; they want to be appreciated; and they want to be proud of their organization." It seems that these aspirations represent basic human needs for self expression.

7.39 Needs can be expressed in ethical or unethical ways. For example, the need to make a difference, to have influence, could be expressed through lust, greed and domination. These do exist, and there are organizations that appear to condone them, for example organized crime. One of the reasons why many organizations, including the Public Service, cannot operate entirely without safeguards and controls is that abuse does exist.

People want to make a difference

7.40 Nevertheless, in the groups we visited, most people showed that they valued making a difference in a positive sense. Their own aspirations and needs helped them perform well at work. In Exhibit 7.1 we illustrate how people expressed these ideas.

7.41 In summary, several things seem to help people perform well at work. People seem to work better the more committed they are. The satisfaction they gain from insightful work design and management contributes to that commitment. An effective Public Service in itself can encourage people to perform well. And public servants' own aspirations help them perform well at work.

Dilemmas that Prevent People from Performing Well

7.42 In our study we also met people who did not perform well. They took unwarranted advantage of benefits or made only the minimum acceptable contribution. In some cases, this was due to perceived unfair treatment. In other cases, it was caused by dilemmas among individuals on how to provide good service and performance.

Differing Interpretations of Work Requirements

7.43 To what extent do organizations create these dilemmas? To what extent do people perceive them? And what effect does this have on service and performance?

7.44 We have put together a series of exhibits that illustrate how public servants view work requirements, and how these views lead to dilemmas. Exhibit 7.2 gives views of professionals who deal with members of the public.

Employees value one thing, organizations another

7.45 These professionals view their task as serving the public to the best of their ability and minimizing activities they consider non-essential. They feel good about their contribution. But they see it belittled because "the system" doesn't share their view of its importance. They feel unsupported and

Exhibit 7.1

WORKING TOGETHER EFFECTIVELY

A. Views from workers

"What makes you do well? I think it's personal satisfaction. I think so. I really do. I like my job. If I hated coming in every day I don't know if I would do as well. But I enjoy what I'm doing so I strive to do better. I don't think it's the managers that is going to make you do well. I think it's what you do for yourself."

"I think the recognition that you get from your supervisor and manager and your coworkers motivates you. Something you hear a lot in this office is, 'Thank you' rather than 'do this' and 'do that'. It's 'Can you please get this done' and when it's done, it's 'Thank you very much. You took a lot of time out of your day to do that.' A lot of verbal, positive gratitude."

"It really is a people-oriented place for being such a big place and that. It was surprising for me. It made a big difference and that's why I like it a lot. People really actually care about the job that they do. And they care about each other. That has a lot to do with it. They want to do a good job and as quickly as we can, too. That was one thing I noticed that I didn't think it would be like. They make you feel wanted."

"One thing I find in this office is there really is no difference in levels. Quite often you have tier situations in offices. It's not like that in this office. People are treated as individuals and people work together as a team. I think that's why the office works so well. That's why we have a good morale."

B. Views from managers

"Again, the common thing to do would be to send a memo out to all staff. 'Dear staff, in the past we have missed a lot ... please ensure that you don't miss this.' The section head would go, 'Well I've done my job. I've written to them.' And the unit head would turn around and circulate the memo and ask everybody to initial the memo. And when something went wrong, we would go back to somebody and beat them with the memo. 'You signed this and you're screwing up too often.' But it's not effective."

"The thing is building a team morale commitment over and above the job. They have to be treated like individuals. You have to treat them so that they feel like they're a part of a team and unit. I'm not saying that we have to be chummy, but you know, you have to sort of feel that you're part of the same organization. You have to feel loyalty to each other and get to know each other."

"One of the biggest things I learned is that the staff will do the job themselves if you let them do it. They want to do it too. But they have to really believe that you let them do it, and they have to believe you're behind them. And that doesn't mean you let go of your responsibility. Like I said, you make decisions, sometimes you have to say no, and sometimes you have to explain why and sometimes you're not going to explain why, it's just a decision. But they have to believe that you at least take their feelings into account."

"If I have learned anything here it is that when you've reached a decision by a mutual consensus process you can stand back and let it happen because it rarely fails. You just get tremendous success out of it. It's almost scary because if you reach consensus on the wrong thing you still succeed, but it's an ambush. So you have to be careful when you use it but it really works."

Exhibit 7.2

INTERPRETING WORK REQUIREMENTS: THE FIELD

"Our job is to interact with clients on a continual basis. We need to be available to them, advise them and counsel them. We are professionally trained for this work, and we have chosen this job because we believe it is important. We find it satisfying when we can work with our clients, when we can assist them, and when we can gradually see them become successful."

"The nature of our work is stressful, because none of us has all the answers, and because sometimes an apparent success turns into a failure. We have to deal with a lot of uncertainty, and some of us burn out. Yet we want to go on because the work is worthwhile."

"What increases the stress is the system's excessive demand for paper and its doubt of our judgment. Everything we do has to be documented in great detail, just in case there is a question later on. We have to fill out forms, make reports, provide statistics, justify actions and maintain files. Our word is worth nothing unless it is on paper. Our actions are not trusted -- they must be documented for possible scrutiny later on. We have to provide answers to questions that may never get asked, just in case they do get asked. The system is cold, impersonal and machinelike. It will not believe our judgments, nor the words we say; it will demand, 'Show me in numbers'."

"All this is compounded by the shortage of staff, the increase in workload and the rule against overtime. The system drives us forever in the direction of doing more paperwork and less people work. We are torn between serving the system and serving our clients, between providing information about our work and doing the work itself. More and more of our time and energy is taken by the system. The system is winning."

unrewarded. They see their organization as unresponsive and are therefore critical of it.

7.46 We had similar discussions at headquarters. Exhibit 7.3 illustrates how people at headquarters interpret the requirements of their work.

7.47 We see that headquarters people also want to do a good job. Yet their interpretation of what is important contrasts sharply with that of field officers.

7.48 We obtained comments on the same topic from officials at central agencies. Exhibit 7.4 gives one such view.

7.49 Again, this demonstrates a sincere interpretation of requirements at work, but from yet another perspective. Doing a good job means helping and protecting Ministers. It also means ensuring equal treatment for members of the public, and preventing public servants from enjoying items of personal comfort that are generally unavailable to other Canadians.

7.50 In discussing these dilemmas, we also tried to get the view of politicians on the topic

Exhibit 7.3

INTERPRETING WORK REQUIREMENTS: HEADQUARTERS

"I've been here for a long time. I joined the department at headquarters after I graduated from University. We have all kinds of demands that many people don't appreciate. We have to attend to cabinet documents, worry about things that are likely to come up in Question Period, deal with Ministerial correspondence, with central agencies and with the media. When there are enquiries, we have to be able to explain where every last penny of our money went."

"We have to stay within our budget. To obtain resources and for planning purposes, we need to know the level of workloads and of performance. We have to provide periodic reports to senior management and to central agencies. Then we have to sort out demands of our field people. Everyone always needs more staff and more money than we have."

"Sometimes we are faced with inquiries. To satisfy those, we need information on practically everything that was done in the field. That information has to be collected at the time the operation takes place You can't create it retroactively. So we need continual documentation of our activities."

"Doing a decent job means satisfying all these different demands, and being able to answer even unanticipated questions. It's one thing after another."

of service and responsiveness. Their comments are based on observing people trying to obtain service, and on trying to intervene personally with public servants at various levels. Exhibit 7.5 has some of their comments.

What people see depends on what they believe

7.51 These dilemmas arise from different interpretations of work requirements. One view comes from people in the field who directly serve the public. Another from people who serve the centre. Both groups are sincere, and both are correct. Their views are based on what they see. And what they see often depends on what they believe.

7.52 Yet from an overall perspective the situation is perplexing. Information that the field hates to put on paper is exactly the information headquarters needs to do its job. Similarly, actions that the centre views as essential are seen by the field as trivial.

Contradictions between headquarters and the field.

Demands of Different Publics

7.53 As part of the discussion in this section we have mentioned different "publics" to whom public servants must respond. They

Exhibit 7.4

INTERPRETING WORK REQUIREMENTS: CENTRAL AGENCIES

"As a central agency, we have to ensure that there is accountability and that there are controls. There are good reasons for this. In our Parliamentary system, Ministers are accountable for what happens in their departments. They have to be prepared to answer questions in public. And since Ministers cannot personally monitor activities across the country, we need to have monitoring and reporting systems in place. This means that field people have to gather information and prepare reports for us. There is just no way around that. It's a cost of doing business."

"Similarly, we need a minimum of central controls in place. It would be impossible for government to permit people in the Maritimes to be treated differently from people in the prairies, or people on the west coast. You can't treat the public differently in different parts of the country or even employees in different departments. To ensure equal treatment, you have to have equal approaches, which means uniform controls."

"Finally, we need some minimum controls to ensure the prudent conduct of public servants. If executives in private corporations fly first class or stay in fancy hotels, the public accepts that. If it happens in the public service, there is an outcry."

"For all these reasons, it would be unthinkable to give local managers unlimited discretion about how they are going to manage. Accountability and controls are part of managing in the public service."

include members of the public in the field, staff groups at headquarters, reviewers in central agencies and Ministers in government.

People are unaware of each others' pressures and challenges

7.54 These multiple expectations often create perplexing dilemmas. Yet we found one element common to most of the dilemmas. This common element is the lack of awareness that people have about each others' pressures and challenges.

7.55 Workers in the field may not appreciate the importance of documented information required at headquarters. An operating manager may not appreciate the importance of statistics required for the Minister in Question Period. A central agency officer may not appreciate the crucial need for more flexibility by a field worker in order to serve the public better.

Awareness improves collaboration.

Helping people understand better helps them perform better

7.56 Managing through understanding has the potential to overcome much of this lack of

Exhibit 7.5

VIEWS ABOUT SERVICE FROM POLITICIANS

"First of all, in the Public Service, first and foremost it's service to the people who are paying the load. So service to the people comes first. To ensure that is provided, morale within the staff is very important."

"All I have seen . . . is that you have cut the people and increased the workload on the individuals . . . All I see is the big administrative top; they do not get touched. But down at the grass roots, those serving the public, they complain to me: look at my workload; I cannot give the individual service to these people . . ."

"Surely an important and integral part of the service is . . . to create that environment and that atmosphere for the delivery of that service so the public who are paying the shot feel: I got personal attention; I got attention for my problem; I feel good about this service."

"It is extremely difficult for all those stakeholders to be committed to a plan if they are only peripherally consulted as opposed to being involved in the process."

appreciation. Helping people understand better will also help them perform better.

Controls Versus Innovation

7.57 The principle of prudence and probity requires that Public Service activities should be transparent and subject to accountability. The underlying aim is to avoid fraud, waste, and abuse, both in fact and in appearance.

7.58 At times this principle seems skewed toward appearance. One senior official said: "It used to be that we were expected to protect the boss from embarrassment, and we accepted that. We would set up controls and preventive measures to make sure our operations were well functioning and our actions were defensible. But now they want us to put a smile on his face every day. They expect us to make things appear perfect, error free. I don't think that will ever be possible."

Controls without corresponding attitudes are inadequate

7.59 The Public Service has tried to achieve prudence and probity by setting up controls and ensuring compliance with them. It is hardly possible, however, to remove all deficiencies and prevent all errors, even through very strict controls. The cost of abolishing all risk of error while delivering a program would be prohibitive. Indeed, controls without corresponding positive attitudes are often inadequate to ensure prudence and probity even in purely administrative environments. Exhibit 7.6 illustrates.

Controls drive out commitment

7.60 Controls are part of managing any organization. Yet when people comply with the letter of controls, they often negate their underlying intent, and dilemmas occur. Those who design controls may think they have done their job, in which case controls are observed but remain ineffective. Or administrators may

Exhibit 7.6

THE CASE OF THE PARIS TRAVELLER

During Budget deliberations, the government decided to reduce international travel for public servants. Treasury Board implemented this decision and issued a directive. In one department, this led to a peculiar version of compliance. One of the department's officials had to be in Europe on two separate occasions. Normally, this would have meant two international trips. However, since there was now a directive to reduce the number of trips, the official proposed to stay in Europe, staying over in Paris. The overall travel cost was not lower than making two separate trips. However, the directive to "reduce the number of international trips" would have been satisfied. The trip was not approved. Yet the proposal illustrates that controls without corresponding attitudes are inadequate.

add further controls, in which case people try to find new ways of ritual response. In such cases of escalation, controls drive out commitment.

7.61 Controls work best when seen as necessary and workable by those who are expected to comply with them. Explaining and getting people committed to the intent of controls is as important as the controls themselves.

7.62 The dilemma of risk avoidance versus innovation challenges not only public servants. In a parliamentary democracy, politicians must account to the public and must be confirmed in their course of action by re-election. Voters sometimes withhold their approval when they become aware of deficiencies in government operations. Ministers of government are therefore also faced with a dilemma. They can choose innovative operations, which entail greater risk. Or they can choose control-oriented operations, which are more inflexible.

7.63 We discussed this dilemma with a number of politicians. One of our discussion partners, a former senior member of a provincial cabinet, suggested the course of action described in Exhibit 7.7.

7.64 The reasoning in this suggestion represents a shift in the framework of thinking. Instead of trying to attain the elusive goal of flawless operations through controls, and thereby maintain public support, the suggestion is to explain to the public that such perfection is unattainable. However, as has been demonstrated by large corporations, it is possible to come closer to perfection by managing through understanding. Ministers might therefore consider encouraging more innovative operations by offering greater discretion, support, trust and recognition to public servants.

7.65 Some people go a step beyond this. The literature of human relations in the workplace has consistently advocated, "Be nice to your people and you will become rich." Yet Canada is a democracy in which people are treated with dignity and respect as a matter of principle. Individual commitment and caring should therefore be pursued in their own right, rather than as a tool to increase performance. The matter of service, performance and cost-effectiveness will then take care of itself.

7.66 Having said all this about dilemmas, it seems that dilemmas in one form or another will remain a part of the Public Service working environment. People will always need to use

Exhibit 7.7

SUGGESTIONS FROM A MINISTER

"The time for new programs is over. This is the time for better service to the public and greater satisfaction for the Public Service. It is necessary to get the politicians to see that a better performing Public Service and a more satisfying Public Service can be of political benefit. The way to do this is to announce that we'll follow the leaders of business: the banks, the insurance companies, the high technology corporations, the big oil companies, and so on. We should adopt their new management methods which are based on values and ethics and satisfaction and service, and much less on multiple rigid controls."

"Then make sure we say something about the money saved through reducing the controls and increasing the reliance on values."

"The idea would be to impress on the public and on the Public Service that this is serious business and that we're in it for the long haul, and that on balance, it will be a better Public Service, a more productive Public Service and a more satisfying Public Service. Even though there will be some errors and inefficiencies, from an overall point of view the advantages would be enormous."

judgment, even wisdom, to resolve these dilemmas or learn to live with them.

Dilemmas Can Be Resolved

7.67 In the previous section, we discussed some of the dilemmas that prevent people from performing well. In this section, we give examples of dilemma resolutions. They occur throughout the Public Service, on islands of innovation where people have created a more committed and service-oriented culture. More examples exist than we can describe here. However, our discussion will provide a flavour of the changes that are going on.

Commitment and caring -- a matter of principle.

Some Solutions that Work

7.68 In our study we visited managers who had a reputation for creatively resolving dilemmas. They typically did so through discussions with their people. Collectively they would then agree on a course of action to overcome the difficulty. Exhibit 7.8 gives some examples.

7.69 Some of these resolutions are unorthodox. For example, ignoring initiatives from headquarters or giving people very high levels of discretion may raise eyebrows. We might hesitate to approve of this as a general policy. However, the organizational culture in these places seems to make such actions acceptable. They seem to contribute to the overall innovative climate of the groups.

7.70 We visited specific working groups of various sizes in different parts of the country. One of them was a field unit of more than 2,000 people whose job is to process standard documents that are submitted by the public.

Exhibit 7.8

RESOLUTIONS TO DILEMMAS

Regional manager, Prairies "There was so much administrative crap coming our way that we couldn't serve the public. We spent more time serving the system than serving the people. So we created a little corporate group that handled all the detailed paper requirements. I used that group to protect the line people. I noticed how well it worked when I got a new boss from the private sector. I was used to handling the paper for my former boss, but the new one wanted to process his own paper. After a while he came into my office and said, "I can't handle it any longer. I can't believe the amount of paper we get. I can't handle it any longer". We first tried that idea ten years ago, and I've been doing it ever since. It protects the people and it appeases the system."

Regional manager, West Coast "You are asking me how we deal with the constant flow of directives and initiatives that come out of Ottawa. Let me ask you a question. How did you get here, did you fly? And did you see the Rockies? And did you see that the Rockies were all covered with white stuff at the top? Well, that isn't snow, as you might assume. That is paper. That white stuff is what we arrange to lose out of the mail pouches as the mail is carried west. That's why things still work out here. Otherwise we would be at a standstill."

Deputy Minister "Well, you see, I have about twenty people reporting to me, including my senior regional people. And since twenty is too many, it really means they report to no one. But we have a very good working relationship. We talk and meet regularly, we trust each other, and we decide things together. This gives them the freedom to manage their shops the way they should, because they know far more about it than I do, and it gives me time to think about policy and strategy, which usually gets squeezed out by operating work."

This is a high-volume operation, almost a factory.

7.71 Such environments are normally managed in a regimented, sometimes authoritarian style. In this instance we found the opposite. The unit is an example of a group that practices management through understanding.

Service improves through collaboration and innovation

7.72 Here are some of the main elements of its management style. These are representative of the different groups we visited.

> There is a tight-loose style of management. It is tight with respect to the work itself, which involves the timely and accurate processing of millions of documents. It is loose with respect to dealing with the people who actually do the work. A local newsletter, permission to use "Walkman" radios, lotteries, theme days, making use of facilities for employees' benefits, including using the cafeteria for aerobics sessions, are part of the style. Service and performance are very

high, yet they have created a humane, "fun" working environment.

There is a positive attitude based on collaboration and innovation vis-à-vis other units and headquarters. As a result, the unit is frequently chosen to develop and test new techniques and processes. Management and employees collaborate innovatively. For example, they set certain production standards together. They also think up new and more efficient ways of doing things. Workers meet independently to discuss better approaches to work and production.

Management has an attitude of tending to say "yes" to suggestions that workers make. They look hard to find ways to accommodate workers' suggestions. They have learned that workers' ideas are usually innovative and productive.

7.73 This management style is unusual for bureaucratic organizations. They are islands of innovation. Yet, they seem to perform as well as, and in some respects better than, other more traditional units. It is worth noting that these initiatives were developed within the units themselves rather than being ordered by headquarters or a central agency.

Learning from History

7.74 Over the last decade or so we have learned much about what attributes are important to good performance in organizations. We have learned that not all management styles are equally effective. In Exhibit 7.9 (Quality of Working Life) we look at one project initiated 15 years ago in the Public Service to bring about change in the working environment.

Integrity is an important factor

7.75 Among other things, the QWL project concluded that integrity was an important factor in managing through understanding. Vague promises that eventually prove to be unconnected with reality only serve to create resentment. "If you're not prepared to make the commitments required for major changes, don't talk about them".

Empty promises create resentment.

7.76 On a lighter note the QWL project points out the pitfalls of too much publicity. Media attention seemed to bring out the worst in people. They became sidetracked by the need for success and glory. Several people involved in the project felt that once their program got into the public eye, it was no longer advisable to admit that they had problems. One senior participant advised, "If you start a project, keep quiet about it. Then, if it fails, no one will write about it in the newspapers".

Islands of Innovation

7.77 Can a large organization such as the Public Service be converted to a different way of managing? If yes, how? Our tentative answer is that it might be done through an approach we call "islands of innovation". Following are some of the main elements of that approach, as we found them in the work units we examined.

Innovative groups use controls, but also commitment

7.78 **Islands of innovation.** In a sea of Public Service operations based on traditional management styles, we noted islands that are innovative in service and performance. They still value controls where required, but they also value commitment, caring, enthusiasm and innovation. They understand that balanced rather than one-sided approaches are more effective in today's complex environment. They also understand that the balance between control and commitment may have to vary, depending on the kind of work that is done. The common thread in this approach is that it respects the values of employees.

Exhibit 7.9

THE "QUALITY OF WORKING LIFE" PROJECT

The Quality of Working Life (QWL) Project began in 1975 when an advisory committee of Deputy Ministers recommended a new concept be tried in the Public Service. This concept was based on the belief ... "that if employees are given more opportunity to participate in the technology, tasks, work organization, and decision making, with the support of unions and management, the result will be improved economic effectiveness and an improved work life."

The QWL experiment was implemented in three stages.

The approach in the first stage, which involved 204 employees at three sites, was highly unstructured. The employees were given sessions on the principles of QWL and the limits of the project. They also had an outside consultant to assist them. Beyond that, they were left to "go to it".

In the second stage, 113 employees at two sites were chosen to participate. A much more structured approach was used and the new sites were screened more carefully before the project began. Instead of a consultant they had specially trained public servants to assist them.

At the third stage sites, progress was deliberately slow and careful. Care was taken to work within the existing chain of managerial command.

Only one QWL program, at a third stage site, is still alive today. Even so, significant benefits were realized even within the most "unsuccessful" QWL projects. These benefits were noted especially in the areas of communications, supervision, delegation, working conditions, productivity, personal development, and motivation.

Four key lessons were learned from the QWL experience. They deal with the commitment to change, the focus of change, the process of change, and notions of leadership.

Commitment to change. The QWL experiment strongly demonstrated that without a clear management commitment change will not come about. Any innovative process requires the kind of commitment that will ensure the adequate resources and skills development necessary to learn new roles and relationships.

Focus of change. QWL has also taught us that if the focus of change is too narrow, change will be blocked. Employees at two QWL sites quickly found that many changes they saw as necessary were simply not within the boundaries of their program. The focus of change in any new undertaking must be broad enough to prevent the feelings of alienation in a small, even tiny group surrounded by many larger, perhaps uncaring, or even hostile environments.

Process of change. The process of change is of crucial importance. Organizational change is not like a chemistry experiment. There is no obvious "right formula" that will guarantee success. The QWL experience has shown that change is a process of unfolding, requiring a long-term commitment to a set of new principles.

The risk of failure, openness, and insight must also be allowed if the process of change is to bear fruit. QWL proved that one of the greatest values of experience is learning. Learning that comes not from "evaluation" but from a continual taking stock of one's experience against one's goals. Evaluation requires clarity about goals. Stock-taking is dependent upon and reinforces a process of dialogue which continually articulates and re-affirms the common purpose and mission of the organization.

Leadership. Change rarely happens without the support of people with power. Leadership in this context is not the function of a single person who is omnipotent and who can singlehandedly bring about change. Rather, leadership is carried out by all people at all levels of the organization. Which means that all employees must accept their own responsibility for bringing about change

7.79 Openness, trust and integrity. These are seen as the most important values on the islands of innovation. Management and staff rely on each other. They also confide in each other. They listen to each others' viewpoints. They share information. They follow through on promises. Their actions match their words.

7.80 Service is the core business. On the islands of innovation, a strong belief is that "service is the core business". Service to the client drives everything else. It is not seen as a bottleneck, but as the basic purpose of the unit, even though it can be time consuming, especially in complex situations. This view is strong even where performance is measured in terms of administrative tasks. When service is the core business, administrative tasks, staff work and productivity seem to take care of themselves.

7.81 Incentives and rewards. Most incentives in the Public Service have one thing in common. They can only be enjoyed away from work. This includes pay, vacation, pension benefits, sick leave, medical and dental insurance, management leave and bonus pay. The islands of innovation are developing some imaginative on-the-job incentives. They organize enjoyable activities at work and make the work environment itself more rewarding. They also try to provide a variety of incentives, to satisfy people's different needs. Individually designed flexible hours is one example. Having a choice of incentives seems to be important to people. Other choices might be to modify formal dress codes, to allow people to work at home where possible or to provide day care.

Most incentives can only be enjoyed away from work.

7.82 Continuity and perseverance. On the islands of innovation, people expressed satisfaction about the continuity and perseverance of management direction. Contrary to common assumptions about innovation, there tends not to be a constant flurry of new initiatives or redirection. Management deliberately protects its workers from such discontinuity. This contrasts with comments from people elsewhere, where continual stop-and-go action causes strong frustration.

Good leaders empower their people

7.83 Empowering employees. Management through understanding on the islands of innovation is typically not due to one charismatic leader. It is due to a team effort. True, the units do tend to have effective leaders. But they are effective in the sense of empowering their people. Leaders see their main role as getting people's commitment and obtaining their active support in the achievement of the organization's purpose. This approach is more than simply "being nice" to employees. The leaders have a strong need to tap the knowledge that resides in the minds of employees. "Workers know things that management doesn't know. They may not be as articulate as the bosses, yet their knowledge is better than the smarts of many bosses."

Workers know things that management doesn't know.

7.84 Leadership is a function. Conventional wisdom says that long-term organizational change can only be effected by inspired leaders. We have become sceptical of that view. We saw in our study that the most productive change occurred where people at all levels worked together, based on commitment to common purposes and principles. Leaders can initiate change, and they can create the conditions for continued support. But for the long-term survival of organizational change, it seems that leadership has to be seen as a shared function rather than as a person, a function that is carried out by all people in the organization. A long-term change program seems to survive only to the degree that all those involved take risks in support of the shared new approach.

Leadership is a shared function.

7.85 "Swiss cheese" style of management. The islands of innovation have adopted a style of management that might be likened to swiss cheese. Managers provide a framework within which work must be done. But they also leave holes and gaps that employees fill in locally. Depending on the situation, and on the mix of resources available, employees use innovation and judgment to provide the best possible service.

7.86 Commitment. Management and staff understand the unit's nature and purpose. They are committed to it and to each other. They know their public and are committed to serving it. They agree on the core critical tasks that need to be done. They are committed to carrying initiatives through to the end, rather than abandoning them in midstream in favour of new ones.

7.87 Accomplishment and satisfaction. Management and staff work hard to achieve recognition. They feel proud of themselves, their work and their organization. They value innovative solutions. They feel rewarded by their own successes, and they celebrate them. They strive to maintain a fulfilling work atmosphere. They design work so that it can be "fun".

Continuity in leadership approach is crucial for successful change

7.88 Introducing change takes time. None of the units we examined was able to develop this organizational culture overnight. It took years of patient and persistent effort, sometimes over two or three generations of leaders. Indeed, ensuring continuity in leadership approach seems to be a crucial element in the survival of these islands of innovation. We found that the minimum period for a significant improvement or change in values was three to five years. In those units that have become most proficient in managing through understanding, the effort took between six and ten years.

Change takes time.

Summing up

7.89 When we started this study, we assumed that a value statement might be the best way to bring about change in management styles. However, we noted that significant positive change was occurring on some of the islands of innovation without any formal value statements at all. We also found that value statements had a negative effect where organizations officially announced them and then didn't act in accordance with them. In those cases, people became cynical, and morale in the organization deteriorated. Value statements can be a strong positive tool, but management must be consistent and act accordingly. Announcing them and then not living by them is deadly.

Improving performance is a function not only of systems, but also of people

7.90 We refer back to the conclusion from our earlier work. This current study reinforces it:

> Improving performance in organizations is a function not only of systems and structures, but also of people and values. Values influence which tasks people will do with care, which they will do superficially, and which they will try to avoid. Yet the role of values in the improvement of performance has received little attention by most managers. Managers have tended to give more attention to systems and structures than to what employees value.

7.91 As a final note to this study, we would like to quote a senior person who has a visionary outlook on values, people and performance in the Public Service. His view may not be shared by all, particularly not by those who feel they are already working flat out, with resources stretched to the limit. Yet, it represents an inspiring view of the potential that may yet exist in the Public Service.

People's potential is greater than their performance

7.92 He said: "If we compare the potential of people with their actual performance, we see that in many cases there is a large gap. I am convinced of one thing. If we could free up people's potential through enlisting their full commitment, we wouldn't need additional resources for many years to come."

8

Efficiency In Government: A Special Study

Efficiency In Government: A Special Study

Main Points

8.1 Managing with due regard to efficiency is an essential aspect of ensuring that the government is getting good value for money in the management of its operations (paragraphs 8.13 to 8.19).

8.2 Responsibility for managing with due regard to efficiency in the government is shared by central agencies and departments. Central agencies are responsible for establishing the framework for overall government operations, allocating resources, providing functional guidance and assessing government-wide opportunities to provide better service. Departments are responsible for delivering specific government programs or services with due regard to efficiency (8.24 to 8.27).

8.3 The types of problems identified in this chapter are not new. Variations on these themes have been reported before in both government-wide studies and value-for-money audits of departments. What is new, because of the government's financial constraints, is the urgency of addressing efficiency as one method to ensure that services are provided at least cost and maximum quality, while meeting the government's legislative obligations (8.11 and 8.12).

8.4 The government recently has taken a number of related initiatives designed to improve government performance, such as Increased Ministerial Authority and Accountability, and Public Service 2000. It is still too soon to review their impact on the efficiency of government operations (8.26 and 8.27).

8.5 Our study indicates that departments, using a variety of approaches, are attempting to improve efficiency. Such approaches have included changing departmental management philosophy, analysing operations, and implementing new technology. Nevertheless, many weaknesses in the way departments demonstrate that they manage with due regard to efficiency need to be addressed, by both central agencies and departments (8.60 to 8.69 and 8.82 to 8.98).

8.6 Most efficiency improvements in departments are ad hoc, without reference to a management plan. Some efficiency improvements have been achieved but information on them is not widely shared (8.79 to 8.98 and 8.47 to 8.56).

8.7 Departmental reporting and accountability documents used for overall government resource allocation contain little information on efficiency. Planning is largely driven by the budget process, without adequate information on managing with due regard to efficiency (8.32 to 8.46).

Main Points (cont'd)

8.8 Recognition and reward systems to encourage employee performance need to be further improved. Opportunities to significantly improve efficiency will be missed unless the public service can instill management values and attitudes designed to encourage employees to work to their potential (8.70 to 8.78 and 8.57 to 8.59).

8.9 Relevant cost and performance data is, for the most part, unavailable or underutilized. Expenditures for administrative and support functions are inconsistently recorded and inadequately disclosed, making it difficult to formally assess how recent budgetary cutbacks have affected overhead costs and efficiency (8.99 to 8.107).

8.10 Any formal assessment of due regard to efficiency must rely on information related to costs and performance. Except for a few instances, the quality of information on efficiency has not improved since 1987, when we reported that it was poor (8.108).

Table of Contents

Paragraph

Introduction 8.11

Efficiency in Government 8.13

Objective and Scope 8.20

Observations

Responsibility For Efficiency 8.24
Responsibility for managing in the public sector with due regard to efficiency is shared by departments and central agencies (8.24)

Case Study - Cash Management 8.28

Planning 8.32
Departmental planning and accountability documents contain little relevant information on efficiency (8.32)

Information 8.47
Information on efficiency improvements is poorly disseminated (8.47)

Case Study - Most Efficient Organizations (MEOs) 8.53

Training 8.57
Well-developed management and technical skills are required in the pursuit of efficiency (8.57)

Information Technology 8.60
Continuing opportunities to improve efficiency through information technology - government computer centres (8.60)

Recognition and Rewards 8.70
Use of recognition and rewards could be further improved to promote efficiency in government (8.70)
Good "people management" will promote efficiency (8.73)

Case Study - Employee Suggestions Can Save Millions 8.78

Approaches to Efficiency 8.79
Most departments do not have a well organized approach to managing with due regard to efficiency (8.79)

Case Study - Department of National Revenue, Customs and Excise 8.83
Customs "long room": a systematic review of efficiency (8.83)

Case Study - Department of National Revenue, Taxation 8.89
Designing for Efficiency (8.89)

Table of Contents (cont'd)

Paragraph

Cost and Performance Data 8.99

Most managers do not use cost and performance data to assess and improve the efficiency of their operations (8.99)

Administrative and Support Expenditures 8.103

Administrative and support expenditures are inconsistently recorded and inadequately disclosed (8.103)

Little Change in the Quality of Information on Efficiency Since 1987 8.108

Exhibits

8.1 A Typical Extract from a Part III of the Main Estimates

Efficiency In Government: A Special Study

Introduction

8.11 Since 1977 the Auditor General has commented on efficiency in his reports on government-wide studies and value-for-money audits of departments. The first government-wide findings on "Measuring and Increasing Efficiency" were part of the 1978 Study of Procedures In Cost Effectiveness (SPICE) in which this Office reported that:

- in most operations we audited, management did not know the actual level of efficiency or how much it might be increased;
- most of the performance measurement systems reviewed did not play an important part in the program management process.

Reduced spending, by itself, may or may not lead to improved efficiency.

8.12 In subsequent years an increasing demand for government services and the current policy of financial restraint have highlighted the need for maximum efficiency in the use of government resources. Reduced spending, by itself, may or may not lead to improved efficiency. Reduced spending may, for example, restrict investments which could help increase productivity. A service provided at a lower cost is not more efficient if the level of service is reduced or the quality of the service becomes unacceptable. On the other hand, there are cases where public servants have found innovative ways to maintain levels of service when faced with cutbacks in funds.

Efficiency in Government

8.13 In the public service, due regard for efficiency is only one aspect of managing with due regard to value for money. And value for money is just one of many elements for which a manager must demonstrate due regard in making decisions. Others include equity, equality of access, regional development and other socio-economic objectives of the government.

8.14 Some of the problems facing the public service were addressed in the Prime Minister's announcement of Public Service 2000 on 12 December 1989:

> *"Over the years, the public service has been tasked to satisfy the demand for many new programs and services, and in recent years it has had to do so within a climate of increasing fiscal restraint and with a significant reduction in personnel. This task has been made even more difficult by traditional institutional structures and controls that do not encourage efficiency or improvements in service to the public.*
>
> *"The complexity of the administrative regime governing the public service has been recognized as a serious problem for more than a decade. The need for simplification, greater devolution of authority and responsibility, and increased efficiency, is higher now than ever before.*
>
> *"To equip public servants for the 21st century, and to enable them to function effectively in the context of continuing restraint, fundamental changes are required in the ways in which the public service is structured and managed."*

8.15 Our current study on management values, and an earlier one on constraints to productive management, have raised another dimension of managing for efficiency. For example, this year's chapter on Values, Service and Performance in the Public Service states that: "Improving performance in organizations is a function not only of systems and structures, but also of people and values.

Values influence which tasks people will do with care, which they will do superficially, and which they will try to avoid. Yet the role of values in the improvement of performance has received little attention by most managers. Managers have tended to give more attention to systems and structures than to what employees value" (see paragraph 7.13).

8.16 Managing with due regard to efficiency includes considering all the variables that affect the relationship between results (output) and effort (input). Engineered work standards and measurement techniques are still valid in assessing efficiency, but the broader approach now embraces techniques for global management of resources designed to promote better performance by employees. Assessing efficiency also entails examining the methods used to identify and introduce new technology, which has had enormous impact on employee productivity And there is widespread recognition that enhanced service -- "quality of outputs" -- is an important consideration in assessing operational efficiency.

8.17 Managing with due regard to efficiency places a continuing obligation on managers to collect and use productivity information to assess performance against a standard. Productivity is the ratio of the amount of goods or services produced (outputs) to the amount of resources used in producing them (inputs), and is usually expressed by such measures as cost or time per unit of output. Efficiency is the comparison of productivity (output to input) with a performance standard. Many standards of efficiency can be developed for any organization, and all standards are subject to change as a result of such things as new technology and changes in conditions of work or in the nature of the job.

8.18 Productivity comparisons are major tools for management to determine whether the organization is performing at an acceptable level of efficiency, and to assess the potential for improvement.

8.19 It is easier to develop a descriptive formula for efficiency that works in theory than it is to apply it to government operations For some government departments, work outputs are immediately obvious -- cheques processed, for example, or inspections carried out or interviews held. In more complex programs, such as policy analysis, outputs are not easily measured. In all cases, however, it is essential that the indicators chosen to measure efficiency reflect work that employees or management can control.

Efficiency information is most useful when it compares productivity over time (historical standard), or with an engineered standard, or with that of other organizations doing similar work.

Objective and Scope

8.20 The objective of our study was to examine the government's procedures and practices for managing with due regard to efficiency (managing for efficiency). The study did not involve detailed assessments of the efficiency of particular government departments or programs.

8.21 We reviewed reporting of efficiency; use of information technology to achieve efficiency; dissemination of best practices; rewards and recognition; approaches to managing for efficiency; and the production and use of cost and performance data. We have selected case studies to illustrate the nature and types of issues we encountered.

8.22 Our study relied on the findings pertaining to efficiency reported in value-for-money audits by the Office in recent years. In addition, we selected for detailed review six departments which are representative of the broad range of the government's work, including operations oriented toward process, toward contact with clients and toward regulatory programs.

8.23 For purposes of comparison we reviewed research on managing for efficiency elsewhere in the public sector, nationally and internationally.

Observations

Responsibility For Efficiency

Responsibility for managing in the public sector with due regard to efficiency is shared by departments and central agencies

8.24 Responsibility for managing with due regard to efficiency in the government is shared by central agencies and departments. Central agencies are responsible for establishing the framework for overall government operations, allocating resources, providing functional guidance and assessing government-wide opportunities to provide better service. Departments are responsible for delivering specific government programs or services with due regard to efficiency.

8.25 For both groups, efficiency in its simplest terms can be expressed in outputs and inputs, but management considerations at the level of departmental program operations differ from those at the government-wide level. A clear understanding of their respective roles and responsibilities is essential at both levels. These different levels of efficiency management were enunciated by the Office of the Comptroller General, in correspondence with the Auditor General in April 1989.

> *"At the highest level, improvement can be sought in societal and economic efficiency; that is, the allocation of resources between, say, the defence versus social sectors or between the public and private sectors or among federal and provincial jurisdictions. Decisions in this area are inherently political, despite their ramifications for efficiency. At this level, Treasury Board Secretariat and the Office of the Comptroller General have no management responsibilities, limiting their role to the provision of advice on the costs, planning and administration of government.*
>
> *"One level down are efficiency considerations related to improving the government-wide framework. Efficiency improvement measures at this level could relate to reforms of the corporate culture, general incentives, changes to administrative rules affecting all programs, reduction of constraints, etc. Central agencies have a significant role to play here and a number of initiatives are now being taken.*
>
> *"At the next lower level, efficiency enhancements could be sought through the improvement of government-wide structures. Issues here include, for example, reorganization of ministries and departments, reduction of duplication and overlap, and minimization of programs working at cross purposes. Decisions in this area are again inherently political in nature although, within that context, central agencies have a role in the provision of advice to ministers...*
>
> *"As a fundamental principle, however, it is impossible to manage the efficiency of all the programs and activities in the government from the centre. It is more realistic to delegate the responsibility for individual program efficiency to departments while increasing accountability. Treasury Board Secretariat and the Office of the Comptroller General can monitor selectively, can act as a first step in the accountability process and can work with departments to solve particular problems.*
>
> *"Thus, the appropriate role for Treasury Board Secretariat and the Office of the Comptroller General in the management of efficiency is to furnish administrative and policy frameworks which encourage efficiency while providing advice to the political level and general direction and assistance to the managerial level."*

8.26 The government states that it has been pursuing a co-ordinated strategy toward more productive management, based on appropriate delegation of authority and enhanced accountability. Measures to improve government performance include enhancing the quality of management information; changing the way services are delivered; and changing the management culture within the public service. Steps taken to improve efficiency in the context of broader changes in government operations include the following:

MAJOR INITIATIVE	***DESCRIPTION***
Increased Ministerial Authority and Accountability	Introduced in 1986 to improve government management by reducing central administrative controls, give deputy ministers greater freedom to manage their departments, and clearer accountability for results. Examples of improvements include: - authority for departments to retain savings from internal productivity gains. - a significant reduction in reporting requirements and in the number of departmental submissions to Treasury Board. - approval of savings to be carried forward into the next fiscal year: up to 3 percent of operating and maintenance budgets and 5 percent of capital budgets (to a maximum of $75 million).
Public Service 2000	A comprehensive review of all areas relating to public sector management is currently under way. The government's management regime will be modernized, and made less burdensome.
Restructured Government Service Delivery	The government has undertaken to develop innovative ways to encourage efficiency and improve program delivery. One example is Special Operating Agencies (SOAs), under which certain government functions will operate within the public sector but in an independent, business-oriented manner. The Passport Office and the Government Consulting Agency are the first SOAs to be established.
Real Property	Bureau of Real Property Management was established in 1986, with one of its objectives to develop an integrated approach to efficient management of real property.
Cost Recovery	A Treasury Board Policy was approved in 1989 to promote greater fairness and equity in government financing by shifting costs to users and other beneficiaries where appropriate. User fees promote greater efficiency by bringing market-type forces to bear on the demand for and supply of services.

8.27 The government has indicated that improvements affecting efficiency are under way. Our review indicated that it is still too soon to review their effects, but other initiatives, such as improved cash management, have increased efficiency and produced corresponding savings in costs.

Case Study - Cash Management

8.28 In 1984 the Auditor General reviewed cash management in the government and noted that improvements to existing deposit and payment practices, and changes in banking arrangements, could result in savings of at least $90 million annually. The government has subsequently made several efforts to improve cash management.

8.29 In 1985 a Cash Management Division was established in the Office of the Comptroller General. Numerous directives on cash management have been issued over the past six years. In 1988/89 the Office of the Comptroller General published a booklet entitled "Cash Management Principles in the Government of Canada."

8.30 The government has estimated that improved banking arrangements and more efficient cash management have resulted in savings of about $941 million since 1985. Examples of better practices include earlier collection of income tax, sales tax, and excise tax; faster billing and quicker collection of accounts receivable; elimination of non-interest-bearing bank accounts; use of credit cards and travellers cheques; halting of payments to Crown corporations in advance of need; paying of grants and contributions by instalment; and recovery of excess cash from Crown corporations.

8.31 The government is exploring other areas for improvement, such as inventory management, statutory payments, fines and penalties, credit management, loans and guarantees, and contracting.

Planning

Departmental planning and accountability documents contain little relevant information on efficiency

8.32 All government departments are responsible for preparing planning documents to help them and central agencies in making decisions on resource allocation and expenditure control. Our study found that the planning and accountability documents required in the Policy and Expenditure Management System (PEMS) and under the new Increased Ministerial Authority and Accountability (IMAA) regime often did not contain information pertinent to managing for efficiency, even though it is required under existing guidelines.

8.33 The information in planning documents and internal management reports must contain performance indicators for work that is measurable and quantifiable. Otherwise, there is no basis for determining whether efficiency has improved or deteriorated, and by how much.

8.34 Our study examined the documents and reports produced by departments operating under the Policy and Expenditure Management System (PEMS) and under IMAA (a total of six government departments are currently participating in IMAA and a further seven departments are actively negotiating the terms of their participation). We also reviewed the Part IIIs of the Main Estimates. We concluded that some departments have made an effort to improve efficiency, but reporting has not advanced enough for us to comment on the extent of improvements. Departments whose operations involve repetitive processes with uniform outputs tend to have data more easily related to efficiency, and consequently place more emphasis on this information than departments whose activities relate to policy.

8.35 Our study found that departments design their planning information primarily to respond to the budget-driven process of resource allocation by central agencies. In most cases, this budget-oriented information is not related to managing for efficiency, and gives minimal consideration to integrating efficiency information with resourcing information as an essential component of planning and management.

8.36 Most planning documents focus on objectives that are not phrased in quantifiable terms, so that planned improvements in efficiency or productivity are not apparent as measurable targets. Current planning documents under PEMS and IMAA require performance indicators to be identified, but quantitative data on the measurement of results often is not reported.

8.37 Although some departmental plans contain information on efficiency improvements in particular operations, there are no established standards for reporting on the performance results of government operations that are comparable. Most information on program results is presented in narrative form as a qualitative assessment. Where supporting information is included in planning documents it is usually in aggregate numbers, which provide little or no information on how the ratio of program outputs to resource inputs may have changed over time or against plans.

8.38 Most departments do not present efficiency information in a form that would permit comparisons of plans and outputs from year to year. Performance information isolated from any context of comparison does not provide a valid basis for assessing efficiency.

8.39 Chapter 24 reports that the Department of National Revenue, Taxation does not use a consistent basis for accumulating and reporting program results in Part III of the Estimates. For instance, the amount of additional taxes assessed is a performance measure used to report the productivity of enforcement activities. However, we noted that the measure varies depending on the particular enforcement activity. In some cases, additional taxes assessed refers only to the federal portion, and in others to a combination of federal and provincial taxes.

8.40 Also, the Department does not account for the use of a large part of its resources allocated to enforcement. Of the 5,286 person-years allocated to the tax audits, Part III shows results for only 2,540 person-years, with no explanation of how the other 2,746 person-years were used or what results were obtained with them. In other words, when reporting performance, more than half of the resources allocated to audit are unaccounted for.

8.41 Chapter 28 on the Secretary of State reports that performance information for both Citizenship Registration and Citizenship Development is incomplete. For example, no results were given on productivity, promptness and quality of Citizenship Registration services, nor was there any information on the size of the backlog, which has greatly increased since 1986/87. Regarding Citizenship Development, the processing time for applications, although reported in the 1984/85 Part III, is no longer provided.

8.42 A further dimension of the problem is suggested in our follow-up chapter, where we report on the Department of Agriculture's response to a Public Accounts Committee recommendation that "the Department ensure that the 1990/91 and future Part IIIs of the Estimates contain accurate, clear, consistent and complete information, notably in relation to resource allocation and program results".

8.43 In our review of the Department of Agriculture's Part III documents for 1990 91, we could find little evidence that performance claims included in them had been checked to ensure that they were supported by appropriate and sufficient evidence. In some cases the evidence provided was incomplete. In a couple of instances the evidence suggested that, as presented, the performance claims were misleading.

8.44 We conclude that there are deficiencies in the systems and practices used in the Department of Agriculture for preparation and review of its Part III Estimates that are of concern to both us and the Department. The Department will need to make improvements to the systems and practices they employ in preparing the Part III if they are to have reasonable assurance that they can ensure that the Part III contains accurate, clear, consistent, and complete information.

8.45 As Exhibit 8.1 shows, and as we report in Chapter 24 on the Department of National Revenue, Taxation, Part III and other departmental planning and accountability documents would be more useful if they included more complete and quantified performance information, relating outputs to inputs. Efficiency information could include, for example, the number of internal audits and program evaluations completed on schedule, actual costs compared with budgets, and the number of recommendations and resulting savings. Other data might include the ratio of persons employed in administrative and support work to those in direct program delivery, or measurable workload to staff hours. Such information would help managers and others to judge performance by existing standards, or to assess improvements in efficiency over time.

8.46 In sum, such departmental planning documents are largely designed to satisfy the government budget process leading to the allocation of resources. They contain little relevant quantitative data on efficiency. The

Exhibit 8.1

MOST DEPARTMENTAL PLANNING AND ACCOUNTABILITY DOCUMENTS CONTAIN LITTLE QUANTITATIVE DATA ON EFFICIENCY: A TYPICAL EXTRACT FROM A PART III OF THE MAIN ESTIMATES

Performance Information and Resource Justification: This Activity supports managers in the following areas: planning, facilities planning and management, informatics, finance, administrative services, management consulting, audit, evaluation, personnel administration, and communications. This Activity has three key results: the development and enhancement of the management infrastructure; services; and advice, information and functional direction to managers.

Performance in the key result areas is measured in two ways: the direct outputs produced and the impact that these have on the delivery, administration and management of the Department's programs.

Management Infrastructure: The major policies, procedures, standards and systems are in place within the Department, although they require continued updating, enhancement, and re-development The work is of a project nature and output performance is measured by the attainment of project milestones. Measures of impact are normally assessed through the audit and evaluation of the programs served. In major developmental projects, particularly those involving new or modified systems, assessments of effectiveness may be done on the specific project.

Services: Most output measures are found in the services area. Indicators are specific to the function or service and range from items such as the number of invoices processed (finance), to the cost of producing non-discretionary plans such as the annual Multi-Year Operational Plan (planning).

The effectiveness of operational services is measured by the degree of departmental compliance with central agency requirements and the extent to which these are met on time. Because of the diversity of services, each is measured individually.

Advice, Information and Functional Direction: Measures of output are extremely difficult to obtain in this area. Measures of client satisfaction are taken periodically and, less formally, indications of central agency satisfaction are assessed.

Recent Performance: The following information is a selection of highlights of performance during the fiscal year 1988/89 and the first half of fiscal year 1989/90.

Management Infrastructure: The Departmental Planning and Financial Administration Directorate developed a revised Operational Planning Framework. The framework will strengthen the management of departmental programs and resources and concurrently allow the development of an enhanced corporate entity and philosophy.

Development and testing of the Personnel Management Information System continued as planned for pilot implementation. The Correspondence Tracking System has been implemented in several branches after successful completion of pilot testing.

Several personnel authorities have been delegated to a more practical level of management. On January 1, 1989 the Deputy Minister delegated classification authority to most Branch Heads, Directors General, Directors and Regional Heads.

Services: Management consulting services conducted a variety of projects to support program managers. The projects involved operational and work planning, management information systems, organization analysis and design, work simplification, make-buy analysis and automated system requirements.

Personnel administration continues to support the Treasury Board Workforce Adjustment Policy and the Departmental Employment Continuity Policy, while providing personnel services and advice to departmental managers.

departmental process places minimal emphasis on reporting how efficiently resources have been used. Information that compares resources used to program results achieved is rarely provided in a form that would make it possible to identify overall changes in efficiency.

Information

Information on efficiency improvements is poorly disseminated

8.47 Improving operational efficiency often means dealing with technical and human complexities. It is therefore essential that managers be able to know about and draw on the experiences of others. Although there have been projects in some departments designed to improve the efficiency of operations, we found that information about them is not widely shared. Improvements are not well publicized within departments or throughout government. As a result, the knowledge gained by some public service managers is not generally available to others who may be involved in similar operations.

8.48 Some departments issue publications which include articles on efficiency improvements, but in others such discussion is informal -- committee meetings, for example, whose proceedings may not be recorded. There is little corporate memory in most departments of the experience or views of those who have participated in changes.

8.49 At present, a great deal of the published information on managing for efficiency is derived from experience and management perspective in the private sector, which many public service managers feel are not necessarily transferable to their environment. Recent government initiatives to internally publish and distribute articles on efficiency are designed to sensitize managers to public sector efficiency issues. For example, the Treasury Board now publishes a directory of innovations in human resource management. Such initiatives are important. More efficiency information based on public service experience would build on existing knowledge and promote the importance of efficiency in government.

8.50 An illustration of opportunities lost through failure to disseminate information on efficiency was noted in our 1989 chapter on the Canadian Coast Guard. Many innovations in technology had been implemented in one region but were not transferred to others doing similar work. Without a clear assignment of responsibility for monitoring and promoting efficiency, managers usually are not made aware of information that could help them improve the performance of their operations.

8.51 In most departments the management and accountability structure is not geared to reviewing and promoting efficiency improvements and their potential application to other activities. Although there is a government policy requiring that central agencies assess new information technology and its potential for departmental and government-wide application, its implementation is at an early stage. In our 1989 chapter on telecommunications in the federal government, we estimated that potential savings of between $30 million and $45 million could be achieved annually, by creating larger networks of data telecommunications to take advantage of existing tariff structures, by more efficient use of circuits, and by integrating voice and data communication services in departments. In the absence of central co-ordination and guidance, individual departments had acted separately to meet their own requirements, resulting in a proliferation of parallel networks across Canada.

8.52 Departments whose main activities are services to clients have made progress in analysing and improving efficiency, but the designated "centres of specialized expertise" to advise and assist other government departments have been put to limited use. For example, although the Treasury Board Secretariat has implemented a number of "Most Efficient Organization" studies, the fact that this initiative is not widely known is generally indicative of a problem with information dissemination in government.

Case Study - Most Efficient Organizations (MEOs)

8.53 In 1986, the government began a new initiative to reduce the cost of delivering services to the Canadian public. This initiative, first known as "Make or Buy" and then, in 1988, as the Most Efficient Organization (MEO) approach, encourages senior managers to review their services and to consider options for improving in-house delivery of service, or for obtaining the same services at less cost from the private sector on contract. The Bureau for the Delivery of Government Services (BDGS) at Treasury Board Secretariat (TBS) issued a handbook to provide guidance on conducting these efficiency studies.

8.54 The MEO process involves a look at service delivery methods, levels of service and new delivery options to reduce costs. An MEO study can be conducted either in-house or by outside consultants. The MEO is promoted as a management tool available to all managers; the Treasury Board will share the cost of a study when joint funding is requested. In that event, the department keeps all resulting savings and retains ownership of the study findings. The BDGS, however, may use the studies to show what can be accomplished when it proposes MEO opportunities to other departments.

8.55 A department conducts an MEO study to benefit the organization, not to comply with a central agency requirement. BDGS reports that the jointly funded MEO studies have identified potential savings of more than $30 million and 220 person-years. This does not capture the full range of savings, however, as departments have conducted their own MEO studies without BDGS involvement.

8.56 The MEO approach is one way TBS has helped departments respond to resource constraints. It is a positive effort but its application has been limited, considering the range of government operations to which it could be applied. Though the distribution of the MEO handbook has given the approach some exposure, further action to promote the use of these studies is important. Although the BDGS could use the MEO study reports as examples to potential clients, as yet it has not widely publicized the successes. Implementation constraints, and the fact that its use by departments is voluntary, have inhibited a more widespread application of the MEO approach.

Training

Well-developed management and technical skills are required in the pursuit of efficiency

8.57 Achieving efficiency improvements requires an appropriate mix of well-developed skills in human resource management and strong technical skills. It also requires that time be dedicated to developing analytical processes, considering and selecting alternatives and implementing appropriate plans. Our review identified few professional development courses for managers in the public service on how to assess or improve operational efficiency and management decision making.

8.58 There are few rules or guidelines to help public service managers assess and improve the efficiency of their operations, whether across the department or within a small unit. Managers also receive little guidance on assessing the impact that changes in operational efficiency may have on labour management relations. Nor is there consensus among managers on what appropriate efficiency data comprises or on how to analyse or report it.

8.59 This year's Chapter 15, Immigration Control and Enforcement, reports that deficiencies observed in the training of customs officers, and a lack of maintenance courses, lead to reduced efficiency and inconsistent application of immigration policies and procedures at ports of entry.

Information Technology

Continuing opportunities to improve efficiency through technology - government computer centres

8.60 Virtually all government programs use information technology, and computer workstations are a regular feature of the daily job of an estimated one in every three government employees. The use of technology entails constant updating to replace obsolete equipment and software, to keep skills current and to take advantage of new advances. New computer hardware and software permit the automation of more tasks, allowing organizations to move toward more efficient, cost-effective operations. The challenge in managing technology is to keep the investment as current and productive as possible.

8.61 We examined a number of federal government computer centres to see whether there were opportunities to improve efficiency by applying new technology or by changing management practices. Our review included comparing the cost of running the federal government computer centres with the average costs of a variety of other computer centres.

8.62 Many government computer centres have initiatives under way for improving productivity. Others have reduced their operating expenses by streamlining operations. Statistics Canada, for example, is completing a five-year plan for automation, expected to reduce operating staff at its data centres by almost half. This has been accomplished by introducing elements of modern technology, such as robotics; by streamlining operating methods; and by introducing a co-ordinated management/union plan which allowed for an efficient redeployment of personnel.

8.63 Our review of the computer centres indicated that they were processing data at costs comparable with those of data centres outside the federal government.

8.64 In the federal government, most departmental computer operations tend to operate in isolation, as "islands of technology", with separate management, software specialists, systems developers, production people and computer facilities. This arrangement does not take advantage of opportunities to consolidate various computer operations or to share expertise.

8.65 To some extent, the absence of co-ordinated effort to share facilities has been mitigated by the use of privately managed premises housing the computer operations of particular government departments. Under these arrangements, some departments share a private sector computing facility at a lower cost than they could have achieved separately. This practice, however, has not been extended to other areas of potentially common interest, such as sharing management, technical expertise or staff for systems development.

8.66 Government data bases present a significant opportunity to improve efficiency through the sharing of information. Although some progress has been made during the past decade, there are still major opportunities to establish shared government data bases. A policy on the management of government information was issued in August 1989, but the government does not have a current comprehensive inventory of its information holdings. Consequently, there is no efficient way for one department to determine what information exists elsewhere, assuming that it would be accessible through a government network.

8.67 Similar opportunities to improve efficiency were identified in our 1989 report on the integration of the government's data telecommunications networks. Further opportunities exist, such as rationalizing electronic mail into a homogeneous network, consistent with industry standards.

8.68 Other opportunities for using technology to improve efficiency are reported in this year's chapter on the Department of National Revenue, Taxation - Enforcing the Income Tax Act. The Department could reduce time-consuming manual operations by encouraging institutions to file information on magnetic media and by making greater use of computers in auditing taxpayers. And in Chapter 15, Immigration Control and Enforcement, we note that the Commission could carry out investigations more efficiently if it had direct access to the computer terminals of the Canadian Police Information Centre.

8.69 We believe the ability to access and exchange data is essential to achieving economies of scale in the government's information holdings, to lessening duplication of effort and to improving efficiency in the use of information. To take best advantage of new technology, it is essential for the government to weigh the relative costs and benefits of departmental independence against those of a more co-ordinated government-wide approach to information technology.

Recognition and Rewards

Use of recognition and rewards could be further improved to promote efficiency in government

8.70 We concluded from our review that opportunities to significantly improve employee performance will continue to be missed, unless the public service can instill management values and attitudes that encourage employees to work to their potential. In our 1989 Report we commented on the government's centrally administered Incentive Award Plans. These comprise primarily Suggestion Award and Merit Award programs that only partly represent the government's efforts at recognition and reward -- which we had reported were not being used as much as they could be. Response to that report has been positive and improvements to these programs, including better rewards and more authority for new departmental programs, are now in progress.

8.71 Most departments have some form of basic system for rewarding employee performance. This review and others show that employees work more efficiently when management uses a comprehensive approach -- one that encourages them to provide better service by fostering their participation in, and commitment to, achieving organization goals.

8.72 Many government departments endorse the view that "people are our most important resource". But some times, their actions do not reflect this view. Recognizing what employees value is essential to tapping the "discretionary effort" of the work force. Discretionary effort is the effort an employee makes beyond meeting the minimum requirements of the job. The importance of discretionary effort is amply demonstrated by the way "work to rule" tactics can reduce productivity.

Good "people management" will promote efficiency

8.73 Our review indicated that an organization's attempts to tap discretionary effort must embrace the entire range of management practices. They must also clearly demonstrate that the approach is genuine and not merely designed to exploit the good will of employees.

8.74 In our review we noted the following aspects of the relationship between each organization and its employees:

- acknowledgement of employees' contributions as important;
- delegation to the appropriate level of responsibility in program delivery;
- training programs for managers and staff, to encourage excellence, teamwork and sensitivity to client needs;
- recognition and appreciation of employees' performance, as well as monetary rewards;
- continuing commitment and action by managers to recognize and reward employee performance;
- ongoing publicity;
- timely feedback between employees and managers; and
- design, by local managers and staff, of mechanisms for recognition and rewards.

8.75 Where solid recognition and rewards have been instituted, employees and managers have reported that:

- team work was enhanced;
- "red tape" was reduced;
- there was a common understanding of the department's mission;
- employee satisfaction reduced the rate of turnover;
- decisions were made more quickly; and
- employee suggestions for improvements increased in both quantity and quality.

8.76 Our interviews with senior managers, operating managers and employees indicated that introducing a management style incorporating appropriate recognition and rewards had enabled organizations to handle a substantially increased volume of work with fewer resources, and at a higher quality and level of service.

8.77 Our review found that although efficiency has been shown to increase with incentives, most government departments have not paid enough attention to this aspect of employee performance. Demographic and attitudinal changes in the public service mean that management will have to find new ways to improve communication and to inspire commitment. The Public Service 2000 initiative now under way acknowledges the urgency of addressing employee performance and improving management practices

Case Study - Employee Suggestions Can Save Millions

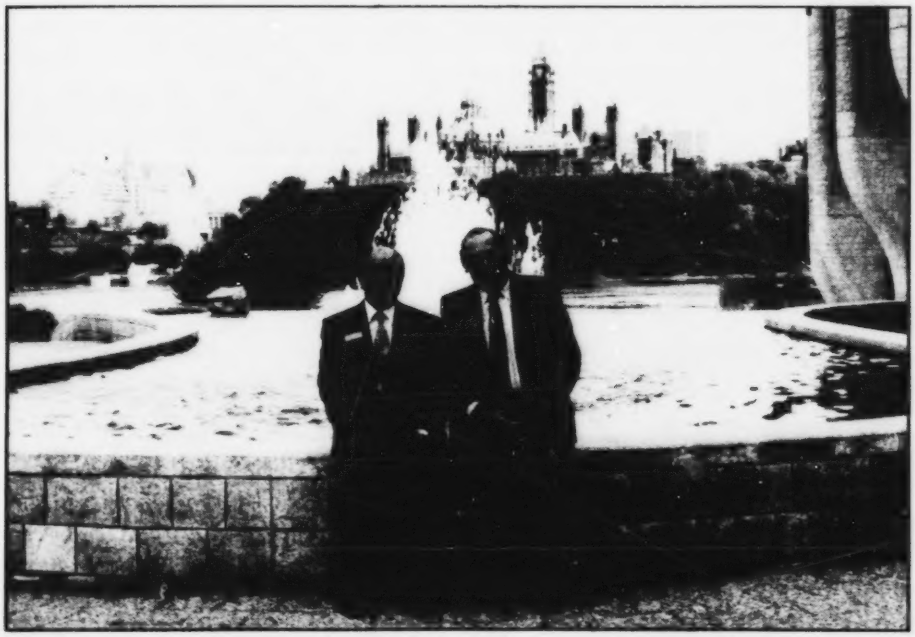
8.78 Two employees from the Canada Employment and Immigration Commission Toronto office, Morris Donen (retired) and Nabil Macarios, were among 37 public servants recently honoured by the government's Incentive Award Plan. Donen's award was for a way to use an Employment and Immigration report to trace unemployment insurance debtors across the country, saving about $2.27 million each year. Macarios' idea was to use a computer program to compare one set of files against another to detect unemployment insurance frauds over $1,000, saving the government about $3.75 million in 1989.

Approaches To Efficiency

Most departments do not have a well-organized approach to managing with due regard to efficiency

8.79 In our view, achieving commitment to managing with due regard to efficiency requires that responsibilities and accountability relationships be clear. It also requires the regular review of departmental operations, to evaluate current levels of performance and to assess opportunities for improvement. Any improvements in efficiency should be reviewed for their potential application elsewhere in the organization.

8.80 Our study indicates that departments are using a variety of approaches to improve



Morris Donen (retired) and Nabil Macarios from Canada Employment and Immigration Commission Toronto Office were among 37 public servants honoured by the Government's Incentive Award Plan (see paragraph 8.78).

their efficiency, such as changing the department's management philosophy, analysing operations and implementing new technology. However, most improvements have relied on ad hoc identification of opportunities to improve program efficiency. Both central agencies and departments need to address many weaknesses in the way departments demonstrate that they manage with due regard to efficiency.

8.81 All departments have internal audit and program evaluation groups, which can be used to monitor and evaluate efficiency and to identify opportunities to improve it. Program evaluation guidelines and internal audit standards include efficiency within the scope of their work, but the extent to which they address efficiency concerns is at the discretion of the departments.

8.82 We recognize that the nature of some departmental functions, such as policy analysis, makes it more difficult to assess their efficiency. However, it should be possible to identify program outputs and determine to what extent measures of efficiency could be applied to them. Most departments do not attempt to distinguish between measurable and non-measurable program outputs, although this is essential to assessing whether it would be beneficial to establish indicators of efficiency. The assessment of efficiency, where appropriate, requires a detailed analysis of such things as procedures, work flows, physical layout, roles and responsibilities, and the development of performance standards. This process is illustrated by the case of Customs and Excise - Long Room Project.

Case Study - Department of National Revenue, Customs and Excise

Customs "long room": a systematic review of efficiency

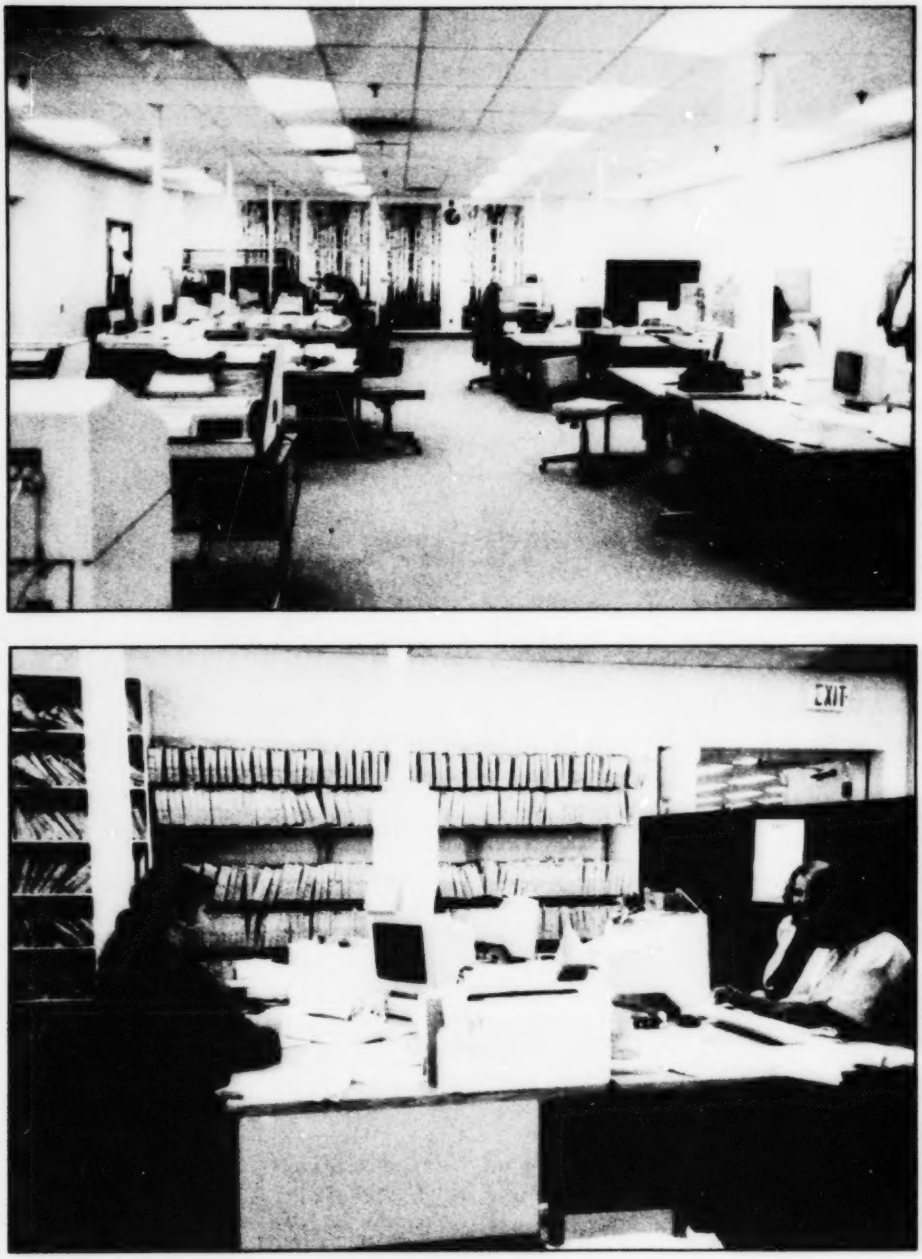
8.83 Customs and Excise implemented the Customs Commercial System (CCS) on 1 January 1988. CCS is a large computer system designed to administer a new tariff system and to streamline Customs' commercial operations. After the system was implemented, the Department assessed its impact on Customs' "commercial long room operations." Long room operations include receiving and reviewing documents on cargo coming into Canada; releasing the importers' goods or referring them for examination; accounting for, receiving and depositing cash; and reviewing operational reports.

8.84 The Department determined that commercial long rooms at ports across the country shared problems, such as a lack of standards for and definitions of tasks, and inconsistent procedures. Headquarters also lacked the information necessary to identify resource requirements in particular regions.

8.85 In response to these problems, the Department initiated a project to design a model for commercial long room operations to develop standard operating procedures for clerical and customs inspection functions; document the procedures; establish performance standards; and more precisely define the functions and responsibilities of clerical staff and customs inspectors. The project entailed regrouping activities into jobs that integrated with CCS; eliminating unnecessary procedures; organizing work into work stations, jobs and tasks; developing Standard Operating Procedures (SOPs); and developing time standards. For each of the 750 clerical and customs inspection tasks a written description was developed. Headquarters is setting a level of resources for each port based on volumes, tasks and time allowed for them.

8.86 Customs long room operations are often limited by the facilities available at ports. The Department re-designed the layout of long room facilities to better utilize the available space at each port, and implemented a training program for clerical staff, customs inspectors, supervisors and managers at each port.

8.87 The Department is implementing the model long room at 40 automated ports across Canada, covering about 70 percent of commercial operations. Based on the reported



Customs long room jobs and procedures were reorganized to improve efficiency (see paragraph 8.85).

results of the pilot project -- a 20 percent improvement in efficiency -- improvements are expected nation-wide when implementation is complete in the fall of 1990.

8.88 We have noted that departments with mostly repetitive operations and uniform outputs have a more developed approach to improving their efficiency. Often improvements result from changes generated by observations from line managers or field staff; by client feedback; by employee participation; and by clear definition of program outputs. For departments making significant investments in plant and equipment it is important to incorporate detailed knowledge about the nature of the work into plans. In departments with large volumes of work, and peak work periods which require a capacity to adjust to dramatic changes in the numbers of employees needed at a given time, there is a particular onus on management to design the workplace to match operational requirements as efficiently as possible -- as the case of National Revenue, Taxation illustrates.

Case Study - Department of National Revenue, Taxation

Designing for Efficiency

8.89 Working conditions, layout, equipment and tools all have an impact on the efficiency of an operation.

8.90 Until the early 1970s, the Department's taxation system was highly centralized, processing all tax returns at the Ottawa Data Centre. Because of operational problems there, and as part of the government's decentralization program, a temporary data centre was opened in Winnipeg in 1976. This facility was in a conventional multi-story building similar to the Ottawa Data Centre, and certain similar operational inefficiencies became apparent. The Department responded by constructing six facilities custom-designed to handle the workflows at various stages of processing tax returns.

8.91 Workflow in a taxation centre is comparable to the sequential steps of an industrial assembly line. Mail enters at the loading dock and is sent for sorting to the adjacent mail room. The returns are placed in custom-designed plastic bins and carts to be transferred to other work areas. A freight elevator next to the mail room takes returns to a main work area, and from there they flow systematically through the respective work areas designed to accommodate each stage in processing.

8.92 Taxation centre operations are highly computerized, a process begun in the 1960s and expanded since then to improve efficiency. All basic jobs involving contact with taxpayers or the processing of tax information have been automated, streamlining the process and improving service to taxpayers.

8.93 To accommodate the mix of paper-oriented and data entry tasks, the taxation centres have a mix of furniture. Standard office furniture is used in the work areas handling paper, while those with computer terminals use ergonomically designed furniture, adjustable to ensure the comfort and minimize the fatigue of computer operators.

8.94 The interiors of the taxation centres were designed to accommodate up to 1,600 temporary employees at peak season and approximately 700 full-time staff. The facilities are open and well lighted, with plants and art work located throughout the building. Employee lounges are pleasant and situated close to work areas.

8.95 The open office design can accommodate the maximum number of employees in peak periods; portable screens provide flexibility. Hanging screens are also used, for visual relief of the large work areas and to create sound barriers. Pedestal flooring allows for easy installation of computer terminals to meet changing requirements.

8.96 By providing the appropriate equipment and tools, computerizing operations and designing the facilities to match operational requirements, the Department has been able to cite efficiency gains of 161 percent in processing tax returns, from 1975 to 1988. Most of these efficiency-related design improvements have been implemented in all but the Ottawa Taxation Centre.

8.97 Even departments that operate in a constantly changing socio-economic environment may find that they could significantly improve efficiency by establishing, and attempting to meet, norms of performance.

Custom-designed carts and bins improve efficiency (see paragraph 8.91).

Ergonomically designed furniture minimizes fatigue (see paragraph 8.93).

One example is found in this year's Chapter 13 on foreign delivery of the immigration program by the Department of External Affairs. The chapter notes a number of opportunities to improve the efficiency of immigration operations at missions abroad, through such measures as automating the processing of applications at large-volume missions, reducing paper burden in the selection process, and increasing the use of locally engaged program staff. Norms of performance have not been specified. The Department has not established norms for

Pleasant work environment increases productivity (see paragraph 8.94).

Movable screens and pedestal flooring allows operational flexibility (see paragraph 8.95).

waiting times or for the amount of resources used in processing visa applications.

8.98 Although we noted that many departments have implemented changes which have improved efficiency, most do not attempt to calculate the level or extent to which their overall operations might be further improved. Some improvements have occurred as a result of recent regulatory reform requiring departments to review their regulations, with a view to delivering programs more efficiently.

Cost and Performance Data

Most managers do not use cost and performance data to assess and improve the efficiency of their operations

8.99 Cost and performance information is essential to departmental managers in identifying opportunities to improve the efficiency of their operations. By examining cost and performance data over time, or in comparison with similar data for other organizations doing comparable work, managers are better able to set performance standards, estimate the resources required for anticipated workloads, monitor results, and analyse variances, which helps in identifying potential improvements. Such information is critical to any accountability process where program managers are expected to provide an acceptable level of service at the lowest possible cost.

8.100 Our review indicated that most departmental information systems focus on summary cost information and non-quantified performance information, not on information relevant to analysing efficiency. Some departments with highly repetitive operations have devoted significant attention to the use of cost and performance data to assess efficiency, but this is not widespread. Our review indicates that there is an abundance of cost information within departments, but this information is generally not well organized or compared with quantitative data on outputs.

8.101 The absence of organized cost and performance information hampers managers' ability to make informed decisions. Several departments indicated that a reduction in resources would affect their ability to maintain core services or to meet client needs. However, without appropriate cost and performance data, they have been unable to determine how much these services would be affected. Last year, our chapter on the Canadian Coast Guard reported a number of such problems. For example, a Ship Activity Reporting System captured weekly information on the hours spent per ship on tending aids to navigation, icebreaking, or undergoing maintenance. From this data, the system produced monthly reports which showed the time each ship spent in service and in maintenance. However, we found that this information was not being analysed and used to its potential. Senior management was not given complete information for making decisions on ship deployment, replacement or modernization.

8.102 Many departments do not make use of appropriate efficiency data to justify their internal allocation of resources. Departmental performance information consists largely of narrative descriptions of program outputs, on the basis of which resources are allocated to achieve program objectives. In some cases, the efficiency information used to justify resource allocations is unreliable and inappropriate. For example, this year's chapter on the RCMP - Support Services to Canadian Law Enforcement Agencies notes that for the measurement of efficiency used to calculate future resource requirements, one branch used performance data based on inappropriate units of measurement. We make a similar observation in the chapter on the Department of External Affairs Immigration Service, where the lack of mission-specific efficiency norms makes it difficult to ensure the quality of immigration services and the appropriateness of the number and location of visa officers around the world. The inappropriate use of cost and performance data, or its absence, means that departments may be unable to identify and analyse opportunities to improve efficiency.

Administrative and Support Expenditures

Administrative and support expenditures are inconsistently recorded and inadequately disclosed

8.103 An important element of cost control in determining overall levels of efficiency is the monitoring of departmental and program administrative and support costs. In an environment of financial constraint, there is sometimes a tendency to impose financial controls to offset the effects of unsatisfactory managerial practices, without due consideration to the cost of developing and maintaining such controls. This may increase administrative overhead at the expense of program delivery.

8.104 Our review indicated that information on administrative and support expenditures is inconsistently recorded, making it impossible to assess the impact of changes in these costs over time and in comparison with other government organizations.

8.105 Administrative and support costs in the federal government traditionally have been classified as either program overhead (related to program outputs) or corporate and administrative overhead. The 1989 Guide to the Costing of Outputs in the Government of Canada defines corporate and administrative overhead as "costs . . . incurred outside program branches, and includes costs of such functions as senior management, corporate communications, informatics, personnel, finance, administration, legal services, program evaluation, audit".

8.106 Administrative overhead accounts for a substantial portion of the total operating expenditures of government departments. In 1988/89, for example, authorized person-years for departmental administration (excluding the Department of National Defence and the RCMP) included in the Main Estimates cost over $1.5 billion.

8.107 Our study noted, however, that because of the lack of common definitions, program administration and support costs are inconsistently identified -- within and among departments. Consequently, their disclosure in the Main Estimates may be incomplete. At present it is impossible to identify these costs, for most individual departments and across government. Although the government has a commitment to restrain its operating costs, we found no analysis of the impact of recent budget cutbacks on program, administrative and support expenditures for most government operations.

Little Change In The Quality Of Information On Efficiency Since 1987

8.108 Government financial management and control initiatives have consistently emphasized the importance of collecting data on efficiency, as an essential component to departmental management. However, the translation of this obligation into specific action has been less than satisfactory. Consequently, although some action is under way, we found little evidence to justify changing the conclusions of our 1987 Financial Management and Control Study, which stated:

> *With few exceptions, information on efficiency of operations is inadequate to support resource allocation or to ensure the efficient management of available resources. The proportion of resources covered by performance measures is low. Most performance standards are based on historical data, with no assurance that these in fact represent efficient standards of performance.*

Government-wide and Special Audits

The following Government-wide and Special Audits have been conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants.

9

Information Security Audit

Information Security Audit

Main Points

9.1 Over the last five years an explosion of growth in the use of computers has increased the opportunity for fraud, damage and abuse, and has left the government vulnerable to theft of the computer information under its stewardship. The 1986 Government Security Policy, which represented a major step forward, requires that the government appropriately safeguard all classified and sensitive information under its control. Our audit focussed on the security of sensitive computer information, excluding the information that is classified for reasons of national security. We included central and lead agencies as well as 13 sample departments (paragraphs 9.6 to 9.28).

9.2 The threats to government information systems are real. During a recent four-month period there were 21 reported incidents of viruses infecting several hundred government microcomputers. In the same period there was a security incident involving the infestation of 28 microcomputers on Parliament Hill. We also noted that overall there had been illegal penetration of computer systems, and incidents of damage to computer facilities caused by disgruntled employees (9.14 and 9.15).

9.3 In our opinion departments and agencies have been negligent in their lack of formal and comprehensive contingency planning. The RCMP has been advising Treasury Board Secretariat for over ten years about the lack of a concerted effort by departments to address contingency planning. Almost all departments in our sample had not assessed the threats and risks to their computer systems. Not knowing how vulnerable they are, departments may not be taking adequate steps to protect their systems. The government is exposed in areas such as protecting information, collecting revenue and providing continuity of service to the public. There is no assurance that the government could continue to deliver all its essential services in the event of a major technological failure or disaster (9.53 to 9.67).

9.4 Until March 1990, when Treasury Board Secretariat offered to assume the role, there was no clear focal point to provide ongoing co-ordination and leadership for information security. There are still overlaps, gaps and fragmentation in the lead agencies' activities supporting information security. No single agency is assigned as the lead for assessing threat and risk, or for contingency planning or training. Government-wide monitoring is weak, and reporting on security in departments is incomplete (9.32 to 9.52 and 9.68 to 9.69).

9.5 Very few of the issues reported in this chapter are new or unknown to departments and agencies. It is our view that government should make a concerted effort to address information security. Central leadership and co-ordination must be improved. Deputy heads of departments should pay more attention to security, and be held accountable for correction of the deficiencies noted in this audit (9.30 and 9.31 and 9.70 to 9.77)

Table of Contents

Paragraph

Background 9.6
Information is the lifeblood of the government (9.6)
Information assets are at risk (9.10)
The threats to our systems are real (9.14)
The potential impact on the people of Canada is severe (9.16)
Good security costs money (9.17)

Audit Objectives and Scope 9.20

Audit Criteria 9.27

Observations and Recommendations

Audit Findings 9.28
A major step forward (9.28)
Progress is painfully slow (9.30)
Blurred responsibilities (9.32)
Formal monitoring of security is flawed (9.36)
Inadequate reporting of government-wide security issues (9.44)
Security training is deficient (9.47)
Negligence in contingency planning (9.53)
Need for stronger leadership and increased co-ordination (9.68)

Conclusion 9.70

Summary of Major Audit Issues 9.71

Recommendations for Improvement 9.72

Exhibits

9.1 Security Program
9.2 Computer Threats
9.3 Computer Viruses
9.4 Computer Security Training
9.5 The Threats are Real
9.6 Surviving a Disaster Takes a Plan, not a Miracle

Information Security Audit

Background

Information is the lifeblood of the government

9.6 Few of us realize the impact that government computers have on our daily lives. Each time we submit a tax return, fill out an application for old age security benefits, or request a social insurance number, the information we supply becomes part of large systems of computerized information maintained by the government.

9.7 Very few activities of any department are not touched by some form of computerized activity. Computer systems are at the heart of many departmental operations, providing information for decision making, supporting administrative and financial functions and providing services to the public.

9.8 The Government Security Policy, approved in June 1986, requires that the government appropriately safeguard all classified and sensitive information under its control. It also assigns to deputy heads of departments accountability for safeguarding information and other assets under their control. This year we looked at computer security and related telecommunications security which, collectively with the management of these areas, we have defined as "Information Security".

9.9 An effective security program encompasses several interlocking and interrelated aspects of security (shown in Exhibit 9.1), all of which contribute to the overall strength of the security chain.

Information assets are at risk

9.10 One of the important responsibilities of departmental senior management is to take prudent and reasonable measures to protect departmental assets, including information, much of which is in computerized form. However, while computerization of information makes it more usable, it also adds to its vulnerability. It is becoming much more difficult to protect information that is spread throughout government, is relatively accessible and is exposed to a wide variety of threats, as illustrated in Exhibit 9.2.

The government's dependency on computers is increasing, at a time when the threats and risks to computer systems are also increasing.

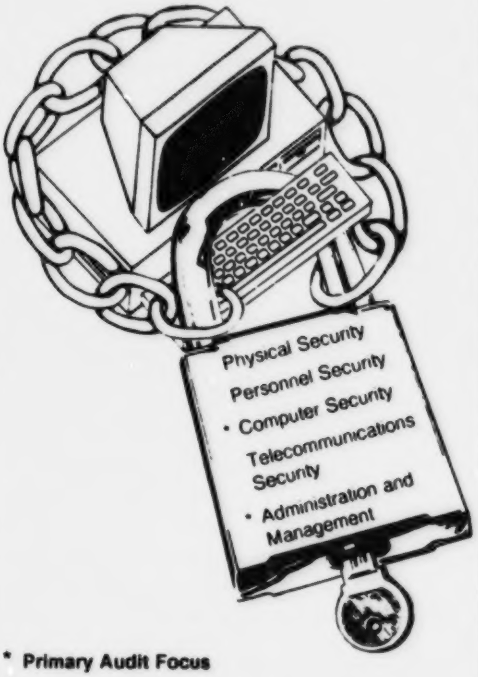
9.11 New threats to computer systems have recently emerged. The term "computer virus" is often used to indicate a general class of computer programs written and initially spread by individuals who are intent on causing damage or disruption to computer systems, making them do things which they were not designed to do. "Viruses", which are capable of replicating themselves and spreading, are just one example of the malicious use of software which can cause extensive damage to computer systems. So far nearly 200 different viruses have been identified.

9.12 "Hacking" is the electronic equivalent of "break and enter", where unauthorized users gain electronic access to computer systems. They browse through files, copy information or cause deliberate damage. Information processing facilities require a variety of security measures to respond to these and other threats.

9.13 Recent changes in the information technology environment have increased the vulnerability of computer systems:

Exhibit 9.1

SECURITY PROGRAM



*** Primary Audit Focus**

Exhibit 9.2

COMPUTER THREATS

Human and Machine Error

- Ignorance
- Mistakes
- Laziness
- Equipment malfunction

Malicious and Unauthorized Acts

- Computer viruses
- Hackers
- Theft/Fraud
- Disgruntled employees
- Unauthorized access
- Terrorists

Disasters

- Tornados
- Earthquakes
- Fire, water damage
- Power outage

- The use of technology is growing rapidly in the federal government and at the same time increasing in complexity; for example, there are now over 80,000 computer workstations and over 500 minicomputers and mainframe computers.

- Data processing is becoming increasingly decentralized, with more and more information processed at sites remote from main computer centres. Therefore, much of the data is no longer protected by traditional electronic data processing (EDP) controls.

- End users usually are not computer specialists and most are not trained in security.

- There is a burgeoning community of people who are both knowledgeable about computers and eager to gain illegitimate access to federal computer systems.

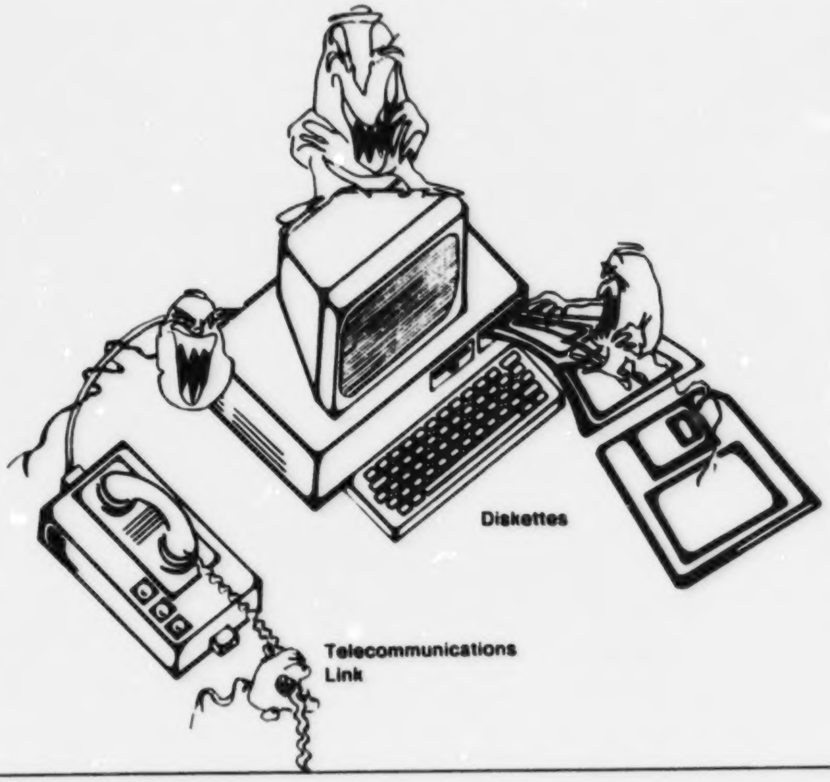
- It is now easier to steal or copy large volumes of concentrated computer data, given that a single diskette, which fits in a pocket or purse, can hold thousands of pages of information.

- Copying of electronic information is difficult to detect.

- Extensive communication networks now link computers. In addition, many mainframe computers can be accessed by telephone. The cost of equipment and software capable of dialling into computer systems and networks is less than $1,000.

Exhibit 9.3

COMPUTER VIRUSES



A virus from an infected computer can reach this microcomputer by travelling over a telecommunications link. Viruses can also be introduced by the sharing of contaminated diskettes or by the introduction of new commercial software which inadvertently contains a virus (see paragraph 9.11).

The threats to our systems are real

9.14 In a four-month period from January to April 1990, there were 21 reported incidents of viruses infecting several hundred government microcomputers. In the same period there was a security incident involving the infestation of 28 microcomputers on Parliament Hill. The Royal Canadian Mounted Police (RCMP) has recorded 11 incidents of illegal penetration of government computer systems to date. Disgruntled employees have also caused damage to computer facilities. The RCMP claims that, in most cases, the problems could have been avoided had fundamental computer security practices been followed.

9.15 In the last year, requests have doubled to the RCMP's EDP Security Branch for help to investigate criminal computer activities, such as copyright violations and computer fraud.

The potential impact on the people of Canada is severe

9.16 Viruses, illegal penetrations, and damage to computer facilities can result in disclosure of sensitive information or disruption of services. Potential impacts include:

- embarrassment to the government, and loss of credibility.
- late social security payments or late payment of government bills.
- compromise of confidential business information.

- disruption of service to the public.

- interference with the government's ability to collect revenue.

- compromise of personal information.

Good security costs money

9.17 The explosion of growth in the use of information technology over the last five years has made security of information more important than ever before.

9.18 It is not possible to fully assess the losses that the government could incur, unless departments appraise the value and sensitivity of the information they possess. Security is largely preventive in nature, like seat belts. Even though most people have never been in a serious car accident, they still wear seat belts. The benefits are never fully realized until there is an accident.

9.19 Likewise, information security makes good sense. It is a legitimate and necessary expense of managing information, and departments should consider both the cost of implementing controls and the potential cost of failing to do so. The costs of security should be commensurate with the need, and built into the life cycle costs of any computer system.

Audit Objectives and Scope

9.20 Our audit objective was to assess whether the departmental management of information security was adequate. Information security should:

- deter unauthorized or premature disclosure of computerized information;

- protect the integrity of information, by guarding against its destruction, unauthorized removal, or modification; and

- guard against any interruption in data processing services, to ensure that information is available when required.

9.21 We also assessed the adequacy of the advice, guidance, policy, standards, training and documentation on information security provided to departments by the central and lead agencies.

Deputy Heads are accountable for safeguarding the government's computer information.

9.22 We view security as an issue for senior management, so we concentrated on departmental management of information security programs and the central leadership provided to them. We did not examine the security of individual computer centres and computer applications.

9.23 Our audit findings reflect the state of security of the government's information assets, as of 31 March 1990.

9.24 This year we focussed on departments which deal mostly with sensitive information that might damage public or private interests if it were compromised. We did not examine departments, such as National Defence, which hold the bulk of the information that is 'classified' for reasons of national security.

9.25 The 13 departments and agencies included in our sample were:

Canada Employment and Immigration Commission
Department of Communications
Department of Energy, Mines and Resources
Department of Environment
Department of Finance
Department of Indian Affairs and Northern Development
Department of National Health and Welfare
Department of National Revenue (Customs and Excise)
Department of National Revenue (Taxation)

Department of Supply and Services
Department of Transport
Royal Canadian Mounted Police
Statistics Canada

9.26 We also included the following central and lead agencies, which provide key elements of government-wide leadership and support for information security matters:

Treasury Board Secretariat (TBS)

- identifies ongoing requirements for security policy direction; develops and issues security policies and standards approved by Treasury Board.

Royal Canadian Mounted Police (RCMP)

- develops standards for computer security; provides advice and guidance on these and other security matters; inspects computer security in departments; carries out security training; reports to TBS annually on the security of EDP facilities in departments.

Communications Security Establishment (CSE)/Department of National Defence

- develops standards for communications security; provides advice and guidance on these and other security matters; provides training; reviews departmental practices on request; reports on communications security to Treasury Board, when requested; provides research and development and evaluation of security aspects of computer hardware, software and communications systems.

Department of Communications (DOC)

- in consultation with CSE, ensures that departments recognize the need for communications security; identifies requirements and provides advice and guidance.

Audit Criteria

9.27 Good information security in government consists of the following key elements:

- strong leadership and support from the central and lead agencies, to ensure consistent, economical application of security across government.
- departmental senior management committed to security.
- a departmental foundation on which to build the security program, including:
  - inventory and classification of information holdings;
  - adequate resources and clear assignment of roles and responsibilities;
  - dedicated staff to co-ordinate information security; and
  - departmental security policies, procedures and standards.
- assessment of threats and risks to computer systems.
- development and testing of formal contingency plans.
- security safeguards which correspond to the risks and comply with government policy and standards.
- periodic and formal monitoring of the application of these safeguards.
- appropriate training for security staff.
- a formal and mandatory security awareness program for managers and all those who use computers in their daily work.

Observations and Recommendations

Audit Findings

A major step forward

9.28 At the time when the 1986 Government Security Policy was issued, there was neither a government-wide framework for managing security, nor uniform standards and technical documentation. TBS determined who should do what, and co-ordinated development of the standards and technical documentation. The development of the policy and its associated standards represented an important initiative and a major step forward for government, providing policy direction and setting the course for implementing information security in departments. All but two of the government departments in our sample had full-time EDP security co-ordinators to carry out implementation of the policy.

> *Although the government has developed a policy for security, progress in implementing this policy is unsatisfactory.*

9.29 No additional resources were provided for implementation, unless specifically requested from Treasury Board and justified.

***TBS comments**: The government places a great deal of importance on the need for appropriate security to ensure the protection of its sensitive information holdings. Accordingly, in 1986 the Treasury Board issued a new security policy governing the protection, not only of information classified for national security reasons, but of other sensitive information as well. This comprehensive feature of the policy was without precedent and has led to the introduction of a new security management system. The policy created a new process for classifying or designating information according to its sensitivity. The classification or designation then triggers safeguards prescribed in standards for administrative, personnel, physical and information technology security. The government security policy, by providing for the integrated application of these safeguards at each stage of the information life cycle, thus provides a comprehensive, co-ordinated security system.*

Progress has been assessed periodically since introduction of the policy in 1986, and as a result four separate amendments have been approved by the Treasury Board. Comprehensive standards for the safeguarding of information were issued on an interim basis in 1987 and in final form in 1990. The policy and standards also provide an integrating framework to co-ordinate activities in the various areas of security.

Progress is painfully slow

9.30 When released in June 1986, the Government Security Policy and standards required full implementation within two years. However, a 1988 TBS review of interim progress recommended that the deadline be extended to July 1990. All departments in our sample indicated that, after four years, they still cannot meet the revised deadline, especially in completing threat and risk assessments and contingency planning. Indeed, five departments told us they would need another two to five years to fully comply with the policy and standards.

9.31 Only four of the 13 departments we audited had put the security foundation in place to implement the Government Security Policy and standards. In addition, although the policy requires that each department appoint a senior official to co-ordinate implementation, we found that four departments had not assigned the task to a senior official.

***TBS comments**: Most institutions have made significant progress since 1986. The formation of interdisciplinary teams has enabled a systems approach to the application of security* *standards. Sensitive information holdings have been identified in classification/designation guides. Personnel security requirements have been reviewed and, in many cases, screening requirements have been considerably reduced.*

In the field of information technology security, the proliferation of information and information technology presents major challenges. Of all the different areas that make up an integrated security system, information technology security is the most complex and the most difficult to implement because of the rapidity of change in the field.

Blurred responsibilities

9.32 The security policy maps out roles and responsibilities. As illustrated previously, several central and lead agencies have varying levels of involvement in different aspects of security. This fragmentation of leadership constrains the government's ability to implement and support information security.

9.33 We found overlaps and gaps in the lead agencies' activities supporting information security. For example, the RCMP and CSE each provide computer security information, organize seminars and conferences, evaluate the security of departmental systems and conduct research and development. Both CSE and DOC provide departments with advice and guidance on telecommunications security, while corresponding protective measures may be examined by the RCMP, DOC or CSE. Our work in departments also confirmed that confusion exists about who should be called for advice and guidance on information security.

9.34 Another area of overlap is guidance on security measures for microcomputers, provided by both CSE and RCMP. These two lead agencies have advisory roles, yet departments are not provided with adequate guidance, or approved products that control access to microcomputers or render data unreadable by outsiders. Because of this, the government's laptop microcomputers are extremely vulnerable to theft of not only the hardware but also the information residing on the microcomputer.

9.35 Three agencies have been designated to provide government-wide leadership in assessing threat and risk, none in contingency planning and four in information security training. The policy does not clearly identify any one agency as responsible for providing ongoing support to departments, to assist them in implementing information security.

TBS comments: *The Treasury Board Secretariat provides leadership and co-ordination in security government-wide. Lead agencies provide central services and expert advice to government institutions in accordance with the responsibilities assigned to them in the policy. Consistent with the principle of Increased Ministerial Authority and Accountability, government institutions are accountable for the protection of their information and assets.*

Specifically in the area of information technology security, training is provided by different agencies, reflecting the different areas of expertise, recognized in the policy. For example, CSE provides training in telecommunications security and in computer system security; the RCMP provides training in EDP security. Training offered by the Treasury Board Secretariat, in conjunction with the lead agencies and the Public Service Commission, integrates the different components of information technology security together with other aspects of security, such as personnel and physical.

Similarly, the lead agencies identified in the policy as responsible for providing advice and guidance in the area of threat and risk assessment do so in different areas. The EDP Security Branch, RCMP, provides advice and guidance in the area of contingency planning. We do, however, recognize that some consolidation may be appropriate.

Formal monitoring of security is flawed

9.36 Information security erodes over time. Keeping the security chain in good working order requires monitoring and review. The adequacy and effectiveness of security measures must be regularly assessed, as well as compliance with departmental and government-wide security policies and standards.

Monitoring of computer security is deficient, with a projected interval of seven to eight years between RCMP inspections, and with departments unable to fill the void.

9.37 Treasury Board has given the RCMP a mandate to inspect and advise on computer security in departments (except the Department of National Defence) and in private sector companies contracted to process government information.

9.38 There is more demand for RCMP inspection and consulting services than it can meet. Annual capital expenditures on computing equipment have grown to over $400 million from approximately $125 million five years ago. Yet, over the same period, the RCMP has hired only one new inspector.

9.39 The interval between RCMP inspections in departments is now projected at seven or eight years. Given the rapid rate of growth in the computer environment, this inspection cycle is clearly unsatisfactory. In our opinion, therefore, the RCMP is not fulfilling its government-wide mandate for reviewing departmental computer security.

9.40 Ultimately, departments themselves are responsible for ensuring that their information security is reviewed. Yet we found that only two of the departments had the combination of methodology, staff and skills to regularly conduct their own formal comprehensive security reviews.

9.41 Although departments generally follow up RCMP recommendations, and say they monitor security on an ongoing basis, we found very few written reports prepared by departmental security staff indicating that they had completed their own formal reviews. Security standards require that departments conduct annual security reviews of all EDP activities. None of the departments we audited had met this requirement.

9.42 Without frequent feedback on the effectiveness of measures to protect information, management is exposing sensitive information to an unacceptable level of risk.

9.43 Even though departments are planning to increase their own monitoring of information security, we believe there is a need for periodic, expert, independent, central inspection services.

Inadequate reporting of government-wide security issues

9.44 The RCMP must report annually to the Treasury Board Secretariat on the state of computer security across government. We found that these annual reports do not cover all government EDP facilities and are not up-to-date, given the size of the RCMP backlog.

9.45 When requested by Treasury Board, CSE reports on telecommunications security across government. However, it does not have a mandate to monitor compliance by departments and can enter a department only at the department's request. Departments are under no obligation to request an evaluation from CSE; consequently there is no workable mechanism to identify the extent of government-wide compliance with telecommunications security standards.

9.46 The security policy states that TBS has a responsibility to monitor compliance with all aspects of the Government Security Policy, through the use of internal audit and lead agency reports. At the end of our audit, TBS was developing an internal audit guide on security. In April 1988 all departments submitted progress reports to TBS. We found that several of these reports were overly optimistic about projected target dates. All departments are also expected to complete a full audit of security by 1993. Because few departments have completed their audits at this time, and lead agency reports are neither complete nor up-to-date, there is no current assessment of the extent of compliance with the specific requirements of the policy and information security standards.

***TBS comments**: In September 1988 the Treasury Board reviewed overall progress in implementation of the policy and approved plans for assisting departments in completing implementation. These plans included the development of an Internal Audit Guide to Security, which was issued in June 1990, a training program and increased advice and assistance to departments. To follow up the reports submitted by departments in 1988, Treasury Board Secretariat staff have visited departments, both at the headquarters level and in the regions, to assess implementation progress and to provide assistance. The visits have given the Treasury Board Secretariat a comprehensive picture of the status of implementation of broad policy requirements. The Treasury Board Secretariat will continue to assess progress in implementation of the policy by means of the information supplied to it by lead agencies and by departments.*

Security training is deficient

9.47 One of the most important factors in creating secure computer systems is a high level of security awareness in departments and among employees. All employees need to understand the value of the information they work with, the potential threats and their own roles in achieving effective security. By "thinking security" and making it everyone's responsibility, departmental employees can be the first line of defence in protecting government information assets.

9.48 Although most departments had developed various methods of providing some computer security training and awareness, only two had a record of providing mandatory and periodic training for all employees who deal with computer systems. Many did not offer any formal training in information security awareness for management.

After 20 years the government still has not provided all the "urgently" needed security training.

9.49 The lack of training for security staff is not a new issue. In 1969, the Royal Commission on Security identified training for departmental security staff as a matter of "urgent" importance. A government-wide study in April 1987 also noted the unavailability of security training for departmental security officers. TBS, in conjunction with the Public Service Commission, was developing a five-day course for departmental security officers.

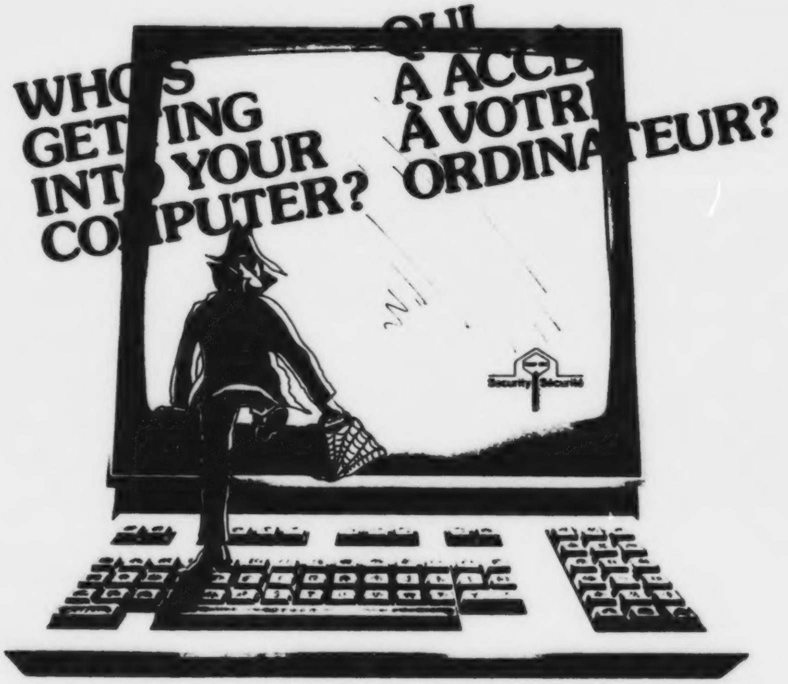
9.50 In addition, formal, ongoing government information security courses are offered by the RCMP and CSE. TBS has also provided seminars and workshops on topics related to policy implementation. However, departments state that these courses have not adequately covered technical areas such as assessment of threat and risk for computer systems and facilities, contingency planning, EDP audit and controls and refresher seminars for EDP security co-ordinators.

9.51 The government does not have an integrated and comprehensive training program for information security. Such a program would provide technical security training for departmental security officers, EDP security co-ordinators and auditors, as well as information security awareness training for senior management, line managers and computer users. Although the policy assigns responsibility for establishing a security training program to the Public Service Commission (PSC), that agency has not taken a lead role.

9.52 With no co-ordinating mechanism to promote a sharing of educational material and ideas, departments have been developing, on their own initiative, various training modules, posters and videos -- an unnecessary duplication of effort and cost.

Exhibit 9.4

COMPUTER SECURITY TRAINING



Source: Royal Canadian Mounted Police

This poster is just one example of the methods being used by departments to promote computer security awareness (see paragraph 9.48).

TBS comments*: Advice and assistance to departments have been provided in the form of implementation guidelines, policy interpretation notices, a handbook for senior managers, and an audio-visual presentation. A five-day comprehensive course integrating all aspects of the Security Policy and Standards has been developed and was given as a pilot in September 1989; it is now being offered on a regular basis in conjunction with the Public Service Commission. In addition, the Treasury Board Secretariat and the lead agencies have conducted an on-going series of conferences, workshops and seminars on various aspects of the policy. Special briefings have been provided for departmental senior management on the requirements of the policy and the need for better security.*

PSC comments*: PSC already offers some security training courses and are planning to provide additional security courses in 1990/91, as funded by TBS. Should there be a need for additional government security training, PSC will assume the responsibilities for designing and delivering such training if funds and expertise are provided by lead agencies.*

Negligence in contingency planning

9.53 Senior management must clearly understand the impact on the delivery of departmental programs, should the confidentiality, integrity or availability of their computer systems be compromised. The process of assessing threats and risks to computer systems can provide this understanding, by considering some basic issues:

- What must be protected, and why?
- What are the threats?
- What level of security is appropriate?
- What action must be taken?

The government has not fulfilled its responsibility to protect its computer information. Not a single department in our sample had protected all its critical systems with formal contingency planning.

9.54 Once these questions have been answered, risks can be managed and reduced to an acceptable level, using security measures commensurate with the value of the information and the nature of the risk. No computer system can ever be completely secure. Where protection would cost more than the information is worth, additional security measures probably would not be justified.

9.55 Almost all the departments we reviewed had not completed all their threat and risk assessments, and thus do not have a comprehensive view of how vulnerable their information systems are. Almost all of them stated that lack of advice, guidance and training in threat and risk assessment, and lack of a usable methodology, have contributed to their difficulties in completing the assessments. Although eight of the 13 departments we reviewed had developed detailed procedures for assessing threats and risks to EDP facilities and information systems, only one had actually completed the process.

9.56 Because departments have not adequately assessed the risks or placed a value on their information, there can be no assurance that the present security of government computer systems is either cost-effective or adequate.

9.57 The public expects the government to always deliver essential or critical services. The objective of contingency planning, therefore, is to enable essential computer systems to continue operating, because in most cases it would be impossible to revert to the traditional manual methods of processing data.

9.58 Contingency planning requires that critical operations and their supporting computer systems be formally identified. This determines how long departments could operate without information technology support and in what order recovery should occur. Preparing the groundwork for contingency planning requires the participation of line management across the department.

9.59 The RCMP has been advising Treasury Board Secretariat for over ten years about the lack of a concerted effort by departments to address contingency planning. It has stated that this lack of planning constitutes a major security exposure of Canadian computerized assets. However, the situation has not been resolved and there is still an absence of leadership in this area. No one is providing relevant training and documentation, or evaluating the computer software available to assist with contingency planning. The lead agencies have only recently begun development of a two-day course on threat and risk assessment and contingency planning.

9.60 Most of the departments indicated that their lack of contingency plans presented an unacceptable risk. However, with the exception of three departments, they had not completed all the necessary groundwork to formally identify their critical computer systems, and to determine how long they could last without these systems. Thus their deputy heads did not have a comprehensive view of the impact an extended loss of their computer systems would have on their operations.

9.61 Although we found a few contingency plans, none of the sample departments could show us written, up-to-date and tested contingency plans covering all its critical systems.

9.62 Three of our sample departments were processing critical systems at a service bureau in the private sector, which had not had an up-to-date RCMP security inspection of the sites being used for processing government information. In spite of the risk, none of these departments had paid for additional security clauses in their contracts, to ensure continuity of processing in the event of a disaster affecting this service bureau, and none had any feasible plans for an alternative processing site.

9.63 The three sample departments were among approximately 25 federal departments using this service bureau. We believe that this concentration of data processing has exposed the government to an unacceptable level of risk. Without security clauses in the contracts, there is no protection for departments should a disaster affect this service bureau or one of its Ottawa data processing sites.

9.64 Exhibit 9.5 illustrates that computer disasters and breakdowns can and do happen; there is no reason to assume that government computer systems are not equally vulnerable.

9.65 The few departments that have completed some threat and risk assessments have found definitively that their computerized assets are at significant risk. The results show that the government is vulnerable in the areas of collecting revenue, maintaining confidence in its ability to protect its information, and ensuring a continuity of vital services.

9.66 Preparing sound plans for recovery from disaster is a fundamental management requirement. The issue is not whether the government can afford to implement and maintain such plans, but whether it can afford not to. In our opinion, departments and agencies have been negligent in not satisfying this need, and in failing to make an adequate commitment to threat and risk assessment. Some departments may not require formal contingency plans, but until they complete their threat and risk assessments, they cannot be sure that this is the case. Until the need is identified, the costs to reduce the risks to an acceptable level cannot be determined. Departments have chosen to accept the risk of losing their computer facilities without knowing the magnitude of that risk.

9.67 The absence of central leadership for contingency planning, and the lack of contingency planning in departments, leaves the government with no assurance that it could continue to deliver all its essential services.

TBS comments: *The Treasury Board Secretariat has provided guidance on threat and risk assessment since the policy was introduced in 1986. Technical advice on threat assessment is provided by different lead agencies according to the nature of the advice required and the mandate and expertise of the agency. The Treasury Board Secretariat is currently assessing problems encountered by departments in the conduct of threat and risk assessments, to determine difficulties with the process and to develop solutions to be reflected in additional guidelines and training. A similar project is in progress to develop operational and technical standards on contingency planning integrating all areas of security, and to offer workshops in this area in late 1990 and early 1991.*

Need for stronger leadership and increased co-ordination

9.68 In addition to the previously noted issues, our audit found other weaknesses related to the lack of a clear focal point for information security:

- There is no single agency responsible for ensuring that major security problems, such as a lack of threat and risk assessment, are addressed and resolved.

- There is no agency responsible for providing leadership in contingency planning.

Exhibit 9.5

THE THREATS ARE REAL

SECURITY INCIDENT	IMPACT
On October 26, 1986 a fire resulted in a total loss of power and communications in Montreal's Alexis Nihon Plaza.	Steinberg's main data centre, which was 10 floors below the fire was without power and data communications for 11 days; however, as the company had formal contingency planning, which had been tested just 24 days before the fire, it was able to restore data processing at an alternate site within two days.
A computer currency fraud, involving the altering of computer tapes, affected Volkswagen headquarters in West Germany in 1984.	Loss to Volkswagen of nearly $340 million.
In November 1988 Robert T. Morris planted malicious software on Internet, a nationwide computer network and main network for the U.S. research community.	Thousands of computers were paralyzed, most of the U.S. major research centres were disrupted for two days.
In January, 1990 a computer breakdown in the U.S. telephone system was traced to a programming bug.	For a period of nine hours, only 50% of long distance calls could get through; cost of the breakdown estimated to be up to $75 million in lost revenue for AT&T.
In May 1988, fire struck the Illinois Bell Telephone Company switching centre.	Thousands of data lines damaged, loss of telephone service for weeks and at least three communications dependent customers had to declare a disaster, customer losses estimated in the tens of millions of dollars and Bell's losses could exceed $30 million.

- There is no workable system to report, document, communicate and, where necessary, recover from major violations or breaches in information security.

- There is no inventory or library of security-related material available from central and lead agencies.

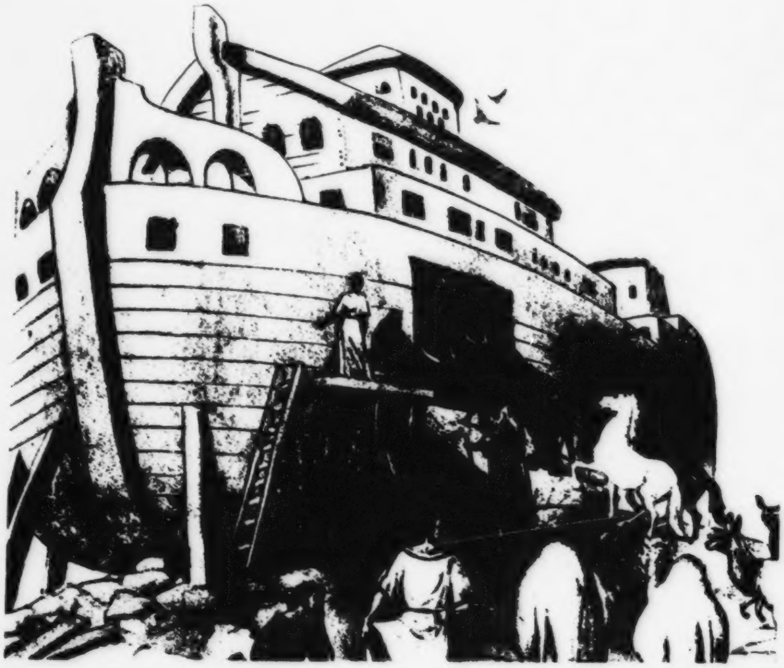
- There is a need to improve the mechanisms to promote the sharing of departmental security material and initiatives, and to co-ordinate government-wide meetings of departmental security staff.

9.69 To date the government has relied on 15 security policy committees and on Treasury Board Secretariat to co-ordinate the development and implementation of the security policy and standards. Committees cannot manage information security on a daily basis. Our audit findings suggest that this fragmented approach is not providing the necessary effective leadership for information security. While TBS offered to accept responsibility for ongoing leadership and co-ordination in March 1990, it indicated that it was unable to allocate additional resources to the function.

***TBS comments:** In early 1989, a framework was developed to co-ordinate the activities of the various committees and lead agencies, to ensure consistency of documentation in the security community. The process prescribed by this integrating framework is being carried out for most areas of security, and plans are in*

Exhibit 9.6

SURVIVING A DISASTER TAKES A PLAN, NOT A MIRACLE



Courtesy of National Computer Systems, Inc.

Departments have done very little formal planning for disasters. An 'Act of God' affecting their computer facilities would find them ill prepared (see paragraph 9.66).

place to bring in the areas of security that are currently outside of the structure.

Conclusion

> *Departments and agencies have not made a concerted effort to implement the policy and standards for information security.*

9.70 Very few of the issues reported in this chapter are new or unknown to departments and agencies. In our opinion, departments and agencies have not made a concerted effort to implement the policy and standards, with respect to information security. Considerable effort has been made to develop the policy and standards, but there is still a long way to go to implement it. There is a need for improved, visible central leadership and co-ordination of information security. Deputy heads have not ensured significant progress in their own implementation of the security policy, and they have not assigned the necessary priority to information security.

Summary of Major Audit Issues

9.71 The following tables summarize the major audit findings:

Sample: 13 Departments

Audit Findings	Applicable Number of Departments
1. Failure to assign full-time EDP security co-ordinator (9.28)	2
2. Failure to comply fully with the security policy and standards (9.30)	13
3. Failure to put the security foundation in place (9.31)	9
4. Lack of methodology, staff or skills to conduct formal security reviews (9.40)	11
5. Insufficient formal reviews by security staff (9.41)	10
6. Annual reviews of all EDP activities not done (9.41)	13
7. Failure to provide mandatory periodic security awareness training (9.48)	11
8. Lack of formal information security awareness training for management (9.48)	8
9. Failure to complete threat and risk assessments (9.55)	12
10. Lack of formal procedures for threat and risk assessment (9.55)	5
11. Lack of formal contingency plans covering all critical systems (9.60-9.62)	13

Central and Lead Agencies

Audit Findings

1. Development of the policy and standards for security was a major step forward (9.28)
2. Blurred responsibilities in lead agencies' support activities (9.32-9.34)
3. No lead agency for threat and risk assessment, contingency planning or information security training (9.35)
4. RCMP not fulfilling its computer security review mandate (9.39)
5. Inadequate reporting of government-wide security issues (9.44-9.46)
6. Lack of government-wide security training program (9.51)
7. Need to provide stronger central leadership and co-ordination (9.68)

Recommendations for Improvement

9.72 **Treasury Board Secretariat should strengthen leadership for information security. As a focal point, it should identify common information security problems and co-ordinate government-wide efforts to resolve these long-standing problems. It should also address the many weaknesses our audit identified, including deficiencies in threat and risk assessment and contingency planning. TBS should define the need for additional centralized information security training, and clarify who is to do what to support information security. This co-ordinating body should be provided with a clear mandate and be adequately resourced to get the job done.**

***TBS response**: The Treasury Board Secretariat and the lead security agencies will continue to provide advice, guidance and* *assistance to institutions in the implementation of the government security policy. The central leadership necessary to ensure the protection of government information holdings will be strengthened. The Treasury Board Secretariat will continue to direct its attention primarily to broad requirements for the management of all aspects of security, including the assessment of threats and risks, and the integrated application of administrative, personnel, physical and information technology security standards.*

9.73 Consider consolidating support for information security. With current advancements in technology, it is becoming impossible to draw a line between computer and telecommunications technology. The feasibility of integrating existing support for advice, guidance and training should be addressed.

TBS response: *The Treasury Board Secretariat has made arrangements with the RCMP and CSE for the joint review of information technology security standards and the co-ordination of support to institutions for technical assistance, training, and inspection services. The Secretariat recognizes as well the desirability of a single responsibility centre for such support, without infringing on the wider responsibilities of CSE and the RCMP. Accordingly, the Secretariat will review the organization of central services for information technology security in conjunction with these organizations and will develop appropriate recommendations.*

CSE response: *There is some fragmentation of roles within government in support of information security, and we believe that these roles need further clarification. Notwithstanding this situation, CSE and the RCMP do in fact co-operate and have joint efforts under way to address information security issues.*

RCMP response: *The roles of the RCMP and CSE are outlined in Government Security Policy. Integrated support for advice, guidance and training relative to information security does exist. Close liaison, a Memorandum of Understanding and joint project efforts between CSE and the RCMP exist so as to bring together computer security and telecommunications security support for government institutions. With changing technology, it is timely to address the question of mandate to avoid duplication of effort.*

Department of Communications response: *Your chapter has been reviewed and we submit our concurrence, particularly on the specific comments relating to our lead role.*

9.74 Maintain formal independent monitoring. Independent, government-wide inspection and reporting of computer security should be strengthened to keep pace with the need. Consideration should also be given to regularly inspecting and reporting on telecommunications security.

TBS response: *The Treasury Board Secretariat will review the adequacy of central security inspection services. However, the responsibility for periodic inspection of government facilities, systems and services to ensure compliance with government-wide standards will rest with the institutions themselves.*

RCMP response: *Independent government-wide inspection of, and reporting on, computer security will be strengthened to keep pace with needs. Five additional RCMP resources will be allocated to the function to address increasing demands. A more formal prioritization system for inspections has been developed and is being refined.*

CSE response: *While there is merit in regular independent inspections and reporting on telecommunications security, additional resources would be required to carry out this task. The expected benefits will of course need to be weighed against the resource expenditure.*

9.75 Departments should accept their monitoring responsibilities. It is not realistic to expect that a central inspection service could do all the necessary security monitoring. New and more efficient ways of conducting inspections need to be

found, and departments should assume more of the review responsibilities. To avoid duplication of effort and to provide consistency of application, monitoring should be co-ordinated across government. This should include central leadership in the development of evaluation methods, an agreed sharing of responsibility and central monitoring of departmental reviews. Deputy heads should be provided with annual reports on departmental security, on the efficiency with which the policy is being implemented, and on compliance with the policies and standards.

9.76 Departments should review their obligations to implement the provisions of the Government Security Policy. It is clear that responsibility for safeguarding information assets lies squarely with the deputy heads. Departmental senior management needs to re-evaluate its commitment to information security and to ensure that all the information technology requirements of the Government Security Policy and standards are implemented. This includes regular monitoring of security, as well as assessment of threats and risks, leading to contingency planning for all critical computer systems. Consideration of security issues should be elevated to the most senior levels of departments, with the officials responsible for implementing the policy reporting directly to the deputy heads.

9.77 Deputy heads should be held accountable for correcting the deficiencies reported in this audit. One mechanism might be to use the Increased Ministerial Authority and Accountability (IMAA) process to provide Treasury Board with information on security in departments, and to strengthen accountability for results.

TBS response: *Deputy heads are held accountable for implementation of the policy by means of an annual performance assessment which focusses on the broad requirements of the policy, rather than a more detailed assessment of compliance with standards. The current IMAA accountability framework for the Government Security Policy sets out the criteria and the information used by the Treasury Board Secretariat for this process.*

10

The Departments of National Revenue, Taxation and Finance

Charities, Non-Profit Organizations and the Income Tax Act

The Departments of National Revenue, Taxation and Finance

Charities, Non-Profit Organizations and the Income Tax Act

Main Points

Registered Charities

10.1 A vast network of devoted volunteers contributes to and significantly supports our social infrastructure in Canada. Without volunteers, much of the work they do would fall to municipal, provincial and federal governments (paragraphs 10.12 and 10.13).

10.2 The principal vehicle for government encouragement of charity has been the Income Tax Act. Registration under the Act gives charities two significant tax advantages -- exemption from taxation and the ability to issue tax-deductible or tax-creditable receipts for donations they receive. This represents an estimated annual cost of $820 million in foregone revenue (10.14 to 10.16).

10.3 More than 31 percent of the 63,000 registered charities do not file their returns on time. Although the Department of National Revenue, Taxation had been advised by its legal services division that it did not have the authority to waive the late-filing penalty imposed under subsection 162(7) of the Income Tax Act, it has never applied it. Doing so would have yielded as much as $49 million a year. However, the Department has revoked the registrations of certain charities which had failed to file; in 1989/90, 633 charities were so penalized. In addition to making recent administrative improvements, the Department has advised us that penalties are one of the principal areas of study in its current review of charities (10.39 and 10.55 to 10.59).

10.4 For other contraventions of the Act (excluding fraud), the only sanction available is the ability to revoke registration. Because charities are often operated by volunteers, non-compliance may sometimes be the result of an oversight. Thus, the Department uses discretion in applying this sanction, and attempts to resolve problems or accepts an undertaking to comply in future (10.39 and 10.74 to 10.82).

10.5 Each year more than 63,000 charities may provide receipts for tax deductions or credits; more than 4.9 million taxpayers claim tax credits. The Department of National Revenue, Taxation does examine donation receipts, but it has not established an adequate compliance program to determine their validity (10.86).

Main Points (cont'd)

Registered Charities (cont'd)

10.6 The provisions of the law pertaining to allowable business activities of charities are unclear and charities are able to circumvent them (10.89 to 10.95).

10.7 Reliable information is not always available to the public through the Public Information Return (10.107 to 10.114).

10.8 To obtain the information needed to improve the level of voluntary compliance and to improve tax legislation and regulations, the Department of National Revenue, Taxation should extend its practices to include a program to measure compliance by registered charities (10.116 to 10.119).

Non-Profit Organizations

10.9 In 1986 there were an estimated 60,000 incorporated non-profit organizations in Canada; the number today is not known. There is no legislative requirement for registration; each organization may determine whether it qualifies as a non-profit organization under the Income Tax Act. Unlike registered charities, there are no annual filing requirements for non-profit organizations except those that are incorporated or are trusts. Consequently the Department of National Revenue, Taxation has no effective check on their right to enjoy exemption from taxation (10.125).

10.10 It is possible for a shareholder of a non-profit corporation to benefit personally from the corporation's tax exempt status. It is also possible for federal, provincial or municipal entities to use their non-profit status to pass on tax concessions to private sector companies (10.129 to 10.134).

Departmental Initiatives

10.11 The Departments of National Revenue, Taxation and Finance are presently carrying out comprehensive reviews of the legislative and administrative framework governing registered charities and non-profit organizations. We have been advised that matters raised in our report are being considered in the course of the reviews (10.29).

Table of Contents

Charities and the Income Tax Act

	Paragraph
Background	10.12
A Canadian volunteer force larger than the public service (10.12)	
Government encouragement of charity (10.14)	
Types of registered charities (10.22)	
The Roles of the Departments of Finance and National Revenue, Taxation	10.26
The Department of Finance - a focus on policy (10.26)	
The Department of National Revenue, Taxation - a focus on compliance (10.27)	
Current departmental initiative (10.29)	
Legislative and Administrative Rules and Procedures	10.30
Legislative rules and procedures should encourage voluntary compliance (10.30)	
Administrative rules and procedures (10.34)	
Audit Objective, Scope and Conclusions	10.35
Objective (10.35)	
Scope (10.36)	
Conclusion: overall, the rules and procedures do not provide effective checks (10.38)	
Registration	10.44
Charities must qualify for registered status (10.44)	
Definition of "charitable" is based on common law (10.47)	
Filing of Returns	10.51
Filing requirement (10.51)	
Penalty for failure to file may be loss of registered status (10.53)	
Departmental practice weakens incentive for voluntary compliance (10.56)	
Revocation tax payable if registration is revoked (10.61)	
Some charities have operated despite revocation of registration (10.64)	
Audit	10.69
Audit of registered charities (10.69)	
Dealing with identified non-compliance (10.74)	
Department's recourse is limited (10.82)	
Audit of allowable credits or deductions for charitable contributions (10.84)	
No appropriate program for validating claims (10.86)	

Table of Contents (cont'd)

Paragraph

Charities and the Income Tax Act (cont'd)

Legislative Rules Require Clarification 10.88
Insufficient limits on business activities (10.89)
Loanbacks to donor by private foundations (10.96)
Gifts in right of Canada (10.99)

Information to the Public 10.104
Available information not necessarily reliable (10.107)

No Measurement of Taxpayer Compliance 10.116

Non-Profit Organizations and the Income Tax Act

Audit Scope 10.121

Background 10.122
Qualifying as a non-profit organization provides tax exemption (10.122)

Our concerns

No Registration or Filing Requirements 10.125

Legislative Rules Require Clarification 10.126
Profit as an objective (10.126)
Members may benefit from non-profit status (10.129)
Federal, provincial or municipal entities as conduits (10.131)

Exhibits

10.1 Number of Registered Charities
10.2 Example Calculations of Disbursement Quotas
10.3 Audit Results for the Years 1987 to 1990
10.4 Examples of Activities Carried on by Registered Charities and/or Non-profit Organizations

The Departments of National Revenue, Taxation and Finance

Charities, Non-Profit Organizations and The Income Tax Act

Charities and the Income Tax Act

Background

A Canadian volunteer force larger than the public service

10.12 In a 1989 report, "Giving Freely: Volunteers in Canada", Statistics Canada noted that between 1 November 1986 and 31 October 1987, volunteers had contributed over one billion hours. This is equivalent to more than half a million full-time, full-year jobs -- about twice the size of the federal public service.

10.13 There is a vast network of devoted volunteers who contribute time and money and significant support to our social infrastructure in Canada. Were these individuals, groups and organizations to not exist, or to lose their motivation and renounce their volunteer mandate, in many cases the work they do would fall to municipal, provincial and federal governments or would not be done.

Government encouragement of charity

10.14 Although organized charity in Canada originated long before income tax, the principal vehicle for its encouragement by the federal government has been the Income Tax Act. Registration under the Act gives charities two significant tax advantages which are of crucial importance to their funding and functioning.

10.15 First, a charity registered with the Department of National Revenue, Taxation is exempted from paying tax on any income it earns. This tax concession has had significant effects. There are about 63,000 charities registered in Canada today, estimated to hold about $11 billion in property (see Exhibit 10.1). Given a nominal return of 10 percent and a nominal tax rate of 20 percent, this represents an annual cost to the Treasury of $220 million in foregone revenue.

10.16 Second, donations to registered charities are tax-deductible or tax-creditable to the donor. Donations by individuals, to a maximum of 20 percent of income, generate a federal tax credit of 17 percent of the first $250 and 29 percent of the balance. Corporations may deduct donations up to a maximum of 20 percent of income. The amount in charitable donations claimed for tax purposes each year now exceeds $3 billion. At a nominal tax rate of 20 percent, this tax concession represents an annual cost to the federal government of $600 million in foregone revenue.

> *The amount in charitable donations claimed for tax purposes each year now exceeds $3 billion.*

10.17 Provided an organization (corporate or otherwise) conforms to certain requirements, it must be registered. The Income Tax Act requires that a registered charity be exclusively "charitable" but does not define the term; its meaning is left to be determined under principles of common law.

10.18 An organization that does not qualify for registration as a charity may still be

Exhibit 10.1

NUMBER OF REGISTERED CHARITIES

TYPE	1974	1980	1985	1990	Percentage Increase 1974-1990
Welfare	3,481	5,236	7,382	9,568	174.9
Health	2,283	2,976	3,767	4,669	104.5
Education	3,033	5,003	7,398	9,739	221.1
Religion	22,343	24,565	26,786	28,449	27.3
Benefit to the Community*	3,973	6,513	8,558	10,761	170.9
TOTAL	35,113	44,293	53,891	63,186	80.0

* Includes libraries, museums, athletic associations and groups to protect the environment

SOURCE: Department of National Revenue, Taxation

Over the last 15 years the number of registered charities has risen considerably.

exempted from taxation as a non-profit organization, but may not issue tax-deductible or -creditable receipts for donations.

10.19 A charity must not allow any part of its income to be made available for the personal benefit of any member. This does not preclude the payment of reasonable salaries or normal employee benefits; nor does it preclude the reimbursement of reasonable out-of-pocket expenses. A charity must not give away funds or other property to organizations to which a Canadian taxpayer could not make a deductible or creditable gift (for example to another charity that is not a registered Canadian charity).

10.20 To ensure that most of a charity's funds are used for charitable purposes, to discourage inappropriate accumulations of capital, and to limit administrative expenses to a reasonable level, all charities are required to satisfy an annual minimum expenditure test based on figures from the preceding year. The Act requires that 80 percent of all donations for which a charity issues receipts be spent the following year on charitable activities. In other words, a charity may incur fund-raising costs and other strictly administrative or non-charitable expenses equivalent to 20 percent of its income. Administrative costs that directly support charitable activities are themselves considered expenditures on charitable activities.

10.21 Gifts of capital by bequest or inheritance, gifts subject to a written direction or trust by the donor that the charity hold them for at least 10 years, and gifts from registered charities must ultimately be used for charitable purposes, but are exempt from the requirement that 80 percent be spent the following year. Non-receipted funds are also excluded from this requirement (see Exhibit 10.2).

Types of registered charities

10.22 A registered charity is designated as a "charitable organization", "public foundation", or "private foundation".

Exhibit 10.2

EXAMPLE CALCULATIONS OF DISBURSEMENT QUOTAS

DISBURSEMENT QUOTA FOR A CHARITY WHICH IS REGISTERED AS A CHARITABLE ORGANIZATION

Amount Which Must be Disbursed by Charity

Total amount for which charity issued official receipts in the immediately preceding year (excluding gifts of capital through bequest or inheritance or gifts with a ten year restriction and gifts received from other registered charities)		$ 1,000,000
Total gifts of capital received by way of bequest	$ 60,000	
Total gifts received from other registered charities	50,000	
Disbursement Quota *80% of $1,000,000*		800,000

DISBURSEMENT QUOTA FOR A CHARITY REGISTERED AS A PUBLIC FOUNDATION

Amount Which Must be Disbursed by Charity

Total amount for which foundation issued official receipts in the immediately preceding year (excluding gifts of capital through bequest or inheritance, gifts with a ten year restriction and gifts received from other registered charities)		$ 1,000,000	
Amount to Include in Disbursement Quota - 80% of $1,000,000			$ 800,000
Total gifts of capital received by way of bequest		60,000	
Amount to Include in Disbursement Quota - Nil			
Total gifts received from other registered charities		50,000	
Amount to Include in Disbursement Quota - 80% of $50,000			40,000
4.5% of Investments:			
Value of all investments held by the foundation		2,000,000	
Less: Amount of receipted donations	$ 1,000,000		
Amounts received from other charities	50,000	1,050,000	
		950,000	
Amount to Include in Disbursement Quota - 4.5% of $950,000			42,750
Disbursement Quota			$ 882,750

DISBURSEMENT QUOTA FOR A CHARITY REGISTERED AS A PRIVATE FOUNDATION

Amount Which Must be Disbursed by Charity

Total amount for which foundation issued official receipts in the immediately preceding year (excluding gifts of capital through bequest or inheritance, gifts with a ten year restriction and gifts received from other registered charities)		$ 1,000,000	
Amount to Include in Disbursement Quota - 80% of $1,000,000			$ 800,000
Total gifts of capital received by way of bequest		60,000	
Amount to Include in Disbursement Quota - Nil			
Total gifts received from other registered charities		50,000	
Amount to Include in Disbursement Quota - 100% of $50,000			50,000
4.5% of Investments:			
Value of all investments held by the foundation		2,000,000	
Less: Amount of receipted donations	$ 1,000,000		
Amounts received from other charities	50,000	1,050,000	
		950,000	
Amount to Include in Disbursement Quota - 4.5% of $950,000			42,750
Disbursement Quota			$ 892,750

A registered charity must spend a certain amount each year (its disbursement quota) on its own charitable activities directly or pay amounts out to other charities (qualified recipients such as other registered charities).

10.23 A charitable organization may be characterized as one that initiates charitable activities, as opposed to funding those of others. Typically, it is responsible for administering a charitable program or series of programs through its own paid or unpaid employees, agents or representatives. Over 90 percent of registered charities are in this category.

The Act requires that 80 percent of all donations for which a charity issues receipts be spent the following year on charitable activities.

10.24 A public foundation can be described loosely as a public body formed to fund the charitable activities of other registered organizations. The best-known example in this category is "United Way". Although a public foundation is permitted to carry on its own charitable activities, most of its expenditures are directed to other registered charities.

10.25 A private foundation can operate in the manner of either a charitable organization or a foundation. Its distinguishing characteristic is the degree to which it is privately controlled or funded. In short, a private foundation is a registered charity that, at the time of registration, is controlled by a group of related persons, or receives over half its funding from one person or group of related persons.

The Roles of the Departments of Finance and National Revenue, Taxation

The Department of Finance - a focus on policy

10.26 The Department of Finance is responsible for Canada's tax systems. The Department's Tax Policy and Legislation Branch analyses and makes recommendations on tax policy and is responsible for maintaining Canada's tax systems. The Branch seeks to maintain a tax system that raises revenue fairly and equitably, and to target tax incentives effectively to meet government goals. It also seeks to develop tax policies consistent with other government objectives -- social, cultural, economic, political, regional, and federal-provincial. The Department develops tax legislation and regulations and is responsible for their effectiveness.

The Department of National Revenue, Taxation - a focus on compliance

10.27 The mandate of the Department of National Revenue, Taxation is to administer the Income Tax Act. In carrying out its mandate, the Department undertakes to provide information, advice and assistance to taxpayers so that they may honour their obligation under the Act. It seeks to collect taxes imposed under the law by encouraging voluntary compliance and by deterring tax evasion and tax avoidance. It also seeks, in attempting to administer the legislation fairly and professionally, to maintain public confidence in the integrity of the tax system.

10.28 Registration of charities is controlled by the Registration Directorate of the Legislative and Intergovernmental Affairs Branch, National Revenue, Taxation. The Directorate also ensures that registered charities meet annual filing requirements, and is responsible for auditing charities. The Assessing and Enquiries Directorate of the Taxation Programs Branch is responsible for audits relating to deductions or credits claimed by taxpayers for charitable contributions. The Department is responsible overall for the effectiveness of its administrative and compliance programs.

Current departmental initiative

10.29 The Minister of National Revenue has initiated a review of the administration of the Income Tax Act governing registered charities. Departmental officials are carrying out the review in consultation with the Department of

The Department of National Revenue, Taxation seeks to collect taxes by encouraging voluntary compliance with the law and by deterring tax evasion and tax avoidance.

Finance and with representatives of the charitable sector and the public; it is intended that the results will be released in a discussion paper by the end of 1990.

Legislative and Administrative Rules and Procedures

Legislative rules and procedures should encourage voluntary compliance

10.30 Legislation developed and maintained by the Department of Finance is the starting point for the compliance programs of the Department of National Revenue, Taxation. The key legislative controls for registered charities are:

- the registration requirement. To enjoy the tax preferences given to them, charities are required to register with the Department of National Revenue, Taxation.
- the requirement to file annual returns. Every registered charity must file, within six months after the end of its fiscal period and without notice or demand, a Registered Charity Information and Public Information Return.
- the authority to provide public access to information. The public information portion of a registered charity's annual return contains information about its operations which the Department of National Revenue, Taxation is authorized to release to the public.
- the requirement that a taxpayer file a donation receipt with an income tax return to claim a tax credit for a charitable contribution.
- the right of the Department of National Revenue, Taxation to audit the annual returns, books and records of charities.

10.31 To encourage voluntary compliance with the Income Tax Act and Regulations, the Department of National Revenue, Taxation has the authority to apply the legislated penalties to non-complying charities and taxpayers. For example, if a charity ceased to comply with requirements of the Act, failed to file a return, issued receipts otherwise than in accordance with the Act and Regulations, issued a receipt containing false information, or failed to provide information or books and records, its registered status could be revoked.

10.32 This could result in imposition of a revocation tax, due within one year after the effective date of revocation. The amount of this penalty tax would equal the value of the assets that a revoked charity had not disbursed to qualified recipients.

The Minister of National Revenue has initiated a review of the administration of the Income Tax Act governing registered charities.

10.33 The legislation also provides for a property transfer tax and a tax on non-qualified investments, both designed to counter certain tax-avoidance mechanisms involving registered charities.

Administrative rules and procedures

10.34 The Department of National Revenue, Taxation uses registration, information and audit as its key administrative instruments. It has the authority to apply the legislated sanctions to non-complying charities and taxpayers and to design and prescribe the content of information returns.

Audit Objective, Scope and Conclusions

Objective

10.35 Our objective was to determine if the legislative and administrative rules and procedures applied have been sufficient to secure an effective check on the right of registered charities to continue to qualify for registration; on the validity of income tax deductions or credits claimed by taxpayers; and on the reliability of information provided to the public through the Public Information Returns.

Scope

10.36 Our audit was conducted primarily in the Registration Directorate of the Legislative and Intergovernmental Affairs Branch, Department of National Revenue, Taxation. We also held discussions with officials of the Department of Finance.

10.37 Our audit focussed on the following areas: registration; filing of annual returns; departmental audits of registered charities and of the charitable contribution deduction or credit; and the quality of information provided to the public in the Public Information Return. Our audit identified a number of legislative rules that require clarification.

Conclusion: overall, the rules and procedures do not provide effective checks

10.38 The Income Tax Act is based on the principle of self-reporting and self-assessing; the law and its administration should encourage voluntary compliance.

10.39 More than 31 percent of the 63,000 registered charities do not file their returns on time. Although the Department of National Revenue, Taxation had been advised by its legal services division that it did not have the authority to waive the late-filing penalty imposed under subsection 162(7) of the Income Tax Act, it has not yet applied this penalty. The Department's administrative practices make it possible for a charity to file the required annual return only every second year. For other contraventions of the Act (excluding fraud), the only sanction available is to revoke registration. Because the Department considers that to be inappropriately harsh in certain circumstances, it attempts to resolve problems or accepts an undertaking to comply in future. Moreover, the Department has not established an appropriate compliance program to determine the validity of tax credits or deductions claimed by taxpayers for donations.

Our audit focussed on the following areas: registration; filing of annual returns; departmental audits of registered charities and of the charitable contribution deduction or credit; and the quality of information provided to the public in the Public Information Return.

10.40 Because the legislative rules pertaining to allowable business activities of charities are unclear, charities have found ways to circumvent them. We also found that relevant, accurate and complete information is not always available to the public through the Public Information Return.

10.41 We therefore concluded that the legislative and administrative rules and procedures applied have not been sufficient to secure an effective check on:

- the right of registered charities to continue to qualify for registration.
- the income tax deduction or credit allowed to taxpayers for contributions to registered charities.
- the reliability of information provided to the public through the Public Information Return.

10.42 The concept behind registration helps to support public confidence in the charities sector. In our view, registration is popularly perceived as providing some safeguards that charities will devote their resources to charitable activities.

10.43 Although nothing can guarantee that all charities will comply at all times with tax laws, appropriate legislative and administrative rules and procedures can reduce non-compliance and maintain public confidence in both the volunteer sector and the income tax system.

Registration is popularly perceived as providing some safeguard that charities will devote their resources to charitable activities.

Registration

Charities must qualify for registered status

10.44 To ensure that receipts for charitable contributions can be verified and that charitable activities are being carried on, charities have been required to register and to file annual information returns on their activities.

10.45 In September 1989, the Department of National Revenue, Taxation reorganized its registration procedures to speed up the processing of applications. In 1989/90, 4,680 applications were received; 3,965 charities were registered and 141 were refused registration. If an application for registration has not been disposed of within 180 days of being filed, the Income Tax Act deems that registration has been refused.

10.46 To grant registered status to an organization, the Department must examine its application and be satisfied that it will be exclusively "charitable". The term "charitable" is not defined in the Income Tax Act; its meaning must be determined under principles of common law.

Definition of "charitable" is based on common law

10.47 The starting point for the law is found in the preamble to the Statute of Elizabeth I (the Charitable Uses Act, 1601). Guidance on what was considered charitable is found there in a list of objects which include:

> relief of aged, impotent and poor people ..... the maintenance of sick and maimed soldiers and mariners, schools of learning, free schools and scholars of universities ..... the repair of bridges, havens, causeways, churches, sea banks and highways .....the education and preferment of orphans.....and others.

10.48 In later centuries, the courts used this preamble as a basis to establish whether purposes were charitable. In 1891, after almost three centuries of jurisprudence, Lord Macnaghten (in Commissioners of Income Tax v. Pemsel) categorized charitable purposes under four general headings, as follows:

- relief of poverty;
- advancement of education;
- advancement of religion; and
- other purposes, beneficial to the community but not falling under any of the previous headings, which are recognized by the law as charitable.

10.49 It is still recognized that to be charitable at law a purpose must fall under one of Lord Macnaghten's four headings.

10.50 If an applicant is refused registration, the decision can be appealed to the Federal Court of Appeal. During the last three years 19 appeals were launched, of which 6 were subsequently withdrawn, 12 are pending and one was denied. It is not clear whether the small number of appeals was because taxpayers were satisfied with the Department's decisions or because of the costs involved in appealing to the Federal Court of Appeal, which is the court of first instance.

Filing of Returns

Filing requirement

10.51 Every registered charity must file, within six months after the end of its fiscal period and without notice or demand, a Registered Charity Information and Public Information Return.

10.52 To support voluntary compliance with the filing requirements, the Department operates a toll-free telephone information service and publishes a comprehensive guide to the return. To encourage voluntary compliance the Income Tax Act provides that the Department of National Revenue, Taxation may:

- revoke registration (section 168).
- assess a late-filing penalty of $100, or $25 per day to a maximum of $2,500, whichever is greater (subsection 162(7) of the Act was enacted in 1988 to provide for this penalty).
- initiate legal proceedings. On conviction the court may impose a fine of $1,000 to $25,000, or a fine and imprisonment for up to twelve months (section 238).

Penalty for failure to file may be loss of registered status

10.53 The process of revoking registration for failure to file a return begins with a notice of proposed revocation. During 1989/90 notices of proposed revocation were sent to 8,280 charities. Revocation is effective not earlier than 30 days after the notice is mailed and upon its publication in the Canada Gazette. Since March 1989, the practice has been to send a Notice of Revocation two months after publication, advising the charity that it is to stop issuing official receipts and that it may be liable to pay a revocation tax.

10.54 Files of revoked charities are retained for five years. If, during this time, the organization wishes to be reinstated its file and registration number are revived. Otherwise the full registration process is begun again.

Revocation and reinstatement or re-registration impose costs on the Crown. The Department has no power under the law to impose a fee for these activities.

During 1989/90, notices of proposed revocation were sent to 8,280 charities.

10.55 Of the approximately 63,000 registered charities, 4,300 registrations have at some time been revoked and subsequently reinstated. During 1989/90, charitable status of 633 charities was revoked for failing to file a return, and 334 charities had their registrations reinstated. More than 31 percent or 19,595 of the 63,000 registered charities had not filed returns on time.

Departmental practice weakens incentive for voluntary compliance

10.56 The charitable sector is unique. Charities are run usually by volunteers, working part-time with limited clerical support. Officers may change from year to year; consequently requests to file, or other notices, may not be received by the currently responsible officials. Because of this the Department has chosen to "soften" filing requirements.

10.57 As of July 1990 the Department had not yet applied the late-filing penalty imposed under subsection 162(7) of the Income Tax Act. Where a penalty is clearly imposed by legislation, the Department has been advised that it does not have the power to waive it. Had the penalty been applied it would have yielded as much as $49 million a year. Section 238 also has not yet been invoked. The Department's practice is to allow registered charities a grace period of one year after the required date for annual filing. Only when returns have not been filed for two consecutive years will registration be revoked. This means that it may be possible for a charity to file only every second year.

10.58 Delaying revocation for failure to file an annual return, however, poses risks to the Crown. The period between the date a return is required and the date of revocation for failure to provide the return can extend to two years or more. During this time, the charity is not in compliance with the Income Tax Act, but it can issue receipts for income tax purposes.

It may be possible for a charity to file a return every second year instead of annually, as is required.

10.59 In our opinion, the effect of not levying the late-filing penalty, and the Department's practices of delaying revocation for failure to file, of not instituting legal proceedings to enforce the filing requirement and of reinstating revoked registrations, act as disincentives for charities to meet the legislative requirements for filing. These practices do not correspond with the Department's objective of encouraging voluntary compliance.

10.60 The Department of National Revenue, Taxation should ensure that administrative rules and procedures provide an incentive for registered charities to file the annual Registered Charity Information and Public Information Return on Time.

Department's response: *The Department recognizes the importance of the filing requirement. The application of the specific sanction of discretionary revocation in section 168, and other possible measures to promote compliance with the filing requirement, are being studied in the current review. The Department is working with the Department of Finance, and in consultation with interested parties to develop proposals. These measures will take into account the important fact that charities often rely on volunteers and that any monetary penalty assessed against a charity necessarily reduces the resources available for the benefit of the charity's beneficiaries.*

The Department has applied the specific sanction of revocation to charities which fail to file after reasonable warnings. It is the Department's view that this practice is appropriate taking into account the present legislative framework for registered charities. Further, the Minister may at any time extend the time for making a return with the result that no penalty under 162(7) would be imposed.

Revocation tax payable if registration is revoked

10.61 Revocation of a registration may result in imposition of a revocation tax, due within one year after the effective date of revocation. This penalty tax is equal in amount to the value of assets that a charity has not disbursed to qualified recipients. The purpose of the revocation tax is to ensure that, upon dissolution of a charity, its assets are used only to pay wind-up costs, or are distributed to other registered charities. The revocation tax applies for taxation years after 1977.

10.62 The legislation requires that a return be filed when revocation tax is due. It was not until 1989 that the Department developed a tax return for calculating the revocation tax, twelve years after its introduction. The Department believes that without a tax return, any penalties for failure to file could not be supported.

10.63 The legislation imposes interest charges for late payment of the tax, and a late-filing penalty of $100, or $25 per day to a maximum of $2,500, whichever is greater.

Some charities have operated despite revocation of registration

10.64 In 1988 the Department reviewed charities whose status had been revoked between September 1985 and August 1988. The reviews found that some had continued to operate after their status had been revoked, and had continued to issue receipts for tax purposes though technically they were not entitled to do so. One charity, whose registration was subsequently reinstated, had issued receipts for more than $1 million in the interim.

Revocation of a registration may result in a penalty tax equal to the value of the assets the charity has not disbursed.

10.65 The same departmental reviews also found that charities had not been advised, when their registrations were revoked, that they might be liable to pay a revocation tax.

10.66 Sending a Notice of Revocation, and advising a charity that it must stop issuing official receipts and that it may be liable to pay a revocation tax, was an initiative taken in March 1989 in response to the reviews. In addition the Department has now revised its procedures for revocation tax follow-up. Plans now call for providing revocation tax returns to charities whose registrations have been revoked.

10.67 Our review of the files found no evidence of follow-up to determine if revocation tax was due from charities whose registrations had been revoked for failure to file, or from those requesting revocation of their status.

10.68 The Department of National Revenue, Taxation should develop administrative rules and procedures to ensure that charities whose registrations have been revoked do not continue to issue receipts that may be used for tax purposes, and that they have paid any required revocation tax.

Department's response: *These matters are being considered in the current charities review.*

The Department has since 1989 forwarded notices to deregistered charities advising them of revocation, that they may no longer issue official receipts and that they may be liable to pay revocation tax to the extent their assets are not distributed in the required manner. A follow-up program has now been implemented to verify that charities whose registration has been revoked will have distributed or utilized the assets in the required manner.

Audit

Audit of registered charities

10.69 Audit is a very important administrative instrument used by the Department of National Revenue, Taxation. It is the only way of confirming compliance with tax laws and of maintaining the integrity of the tax system.

10.70 For the years ending 31 March 1987, 1988, 1989 and 1990, respectively 167, 488, 251 and 260 audits were concluded.

Audit is the only way of confirming compliance with tax laws and of maintaining the integrity of the tax system.

10.71 Four sources of information are used to select prospective audits: random screening of files using predetermined criteria, internal and external leads, letters of complaint, and press clippings. The Directorate is developing a computer scoring program to select files for 1990/91 audits.

10.72 The types of audit performed are:

- full-scale audit - including all sections of the audit program;
- restricted audit - covering selected sections of the audit program;
- follow-up audit - following up on a previous audit;
- revocation audit - following up on a charity whose registration has been revoked for reasons other than failure to file; and
- pre-registration audit - examining an application for registration.

10.73 Audits may end in outcomes of a "no change" or "clean opinion" letter; an education letter explaining problems, to make future compliance possible; receipt of an undertaking to comply; or a notice of intention to revoke or of change of status (see Exhibit 10.3). A notice of intention to revoke may be appealed by the charity to the Federal Court of Appeal.

Dealing with identified non-compliance

10.74 For failure to comply with the Act and Regulations (apart from not filing and fraud) the Department of National Revenue, Taxation may revoke the registration of the non-complying charity. Discretionary authority was seen as appropriate in view of the fact that many charities may lack continuity of personnel, or may be operated by volunteers rather than by full-time professional people. In those circumstances, breaches may be inadvertent.

10.75 The following situations illustrate how the legislative rules allow the Department to deal with non-compliance.

10.76 **Gifts in excess of $175,000 to unqualified recipients. Illegal activities. Political activities.** In the 1980s the Department performed an audit of a registered charity for several consecutive fiscal periods.

10.77 The audit found that the charity had made gifts in excess of $175,000 to unqualified recipients, had carried on illegal activities and had carried on excessive political activities, all in contravention of the Income Tax Act.

10.78 One year after the audit, the Department sent the charity a notice of proposed revocation.

10.79 The principals of the charity then proposed that they incorporate a new charitable organization with exclusively charitable objectives; that the Department agree to expedite the new registration; that as a condition of registration the new organization undertake to not provide resources to unqualified recipients and to refrain from illegal activities; and that the original charity then apply for revocation of its charitable status.

10.80 The Department has no discretion to deny registration to an applicant that satisfies the requirement for registration. The newly incorporated charity was subsequently found to meet the requirements of the Act for registration. It was registered and the assets of the original charity were transferred to it. One month later the original charity's registration was revoked. In the Department's view, the activities of the two organizations are segregated and the non-charitable activities in question are no longer being supported by tax-assisted donations.

The Department has no discretion to deny registration to an applicant that satisfies the requirements.

10.81 **Acting as conduit.** An audit by the Department found that a registered charity had received $500,000 from a corporation, for which it had provided official receipts with the understanding that it would transfer the funds to a specified unregistered organization. The corporate taxpayer was allowed to deduct the contribution and in the same year the specified unregistered organization was registered as a charity. The Department advised the charity that it was in contravention of the Income Tax Act. The charity was asked for and provided an undertaking to not repeat the offence

Department's recourse is limited

10.82 When a registered charity contravenes the provisions of the Income Tax Act -- apart from not filing and fraud -- the only sanction available to the Department is to exercise its right to revoke registration. Because charities are often operated by volunteers, non-compliance may sometimes be a result of an oversight. Thus, the Department uses discretion in applying this sanction, and attempts to resolve problems or accepts an undertaking to comply in future. The legislation does not provide the Department with the

Exhibit 10.3

AUDIT RESULTS
FOR THE YEARS 1987 TO 1990

Outcomes of Audits	1987	1988	1989	1990
No change	70	229	34	33
Education Letter	70	116	100	119
Request for Undertaking	13	130	110	81
Notice of Revocation	11	13	7	22
Change of Status & Other	3	-	-	5
TOTAL	167	488	251	260

SOURCE: Department of National Revenue, Taxation

Over the last four years audit coverage has averaged about one-half of one percent of registered charities .

power to levy a monetary penalty or to tax unrelated business profits.

10.83 To ensure that registered charities have an incentive to comply with the Income Tax Act the legislation should be reviewed, appropriate action should be recommended by the Departments of Finance and National Revenue, Taxation to their Ministers, and Parliament should be informed. The Department of National Revenue should also ensure that its administrative rules and procedures provide an incentive for registered charities to comply with the Income Tax Act.

Departments' responses:

Department of National Revenue, Taxation: *One of the specific objectives of the current review is to ensure adequate compliance with the requirements of the Income Tax Act for charitable registration.*

Department of Finance: *The provision of incentives for charities to comply with the Income Tax Act is currently being studied as part of the review initiated by the Minister of National Revenue, and officials of the Department of Finance are working closely with officials of the Department of National Revenue within this process. While the Department is willing to consider the feasibility of providing penalties other than revocation, it should be noted that any system of monetary penalties may result in the diversion of funds intended by donors to be dedicated to charitable purposes into the Federal treasury, while having little effect on reducing non-compliance that is primarily inadvertent. In this context, the current legislative system of revocation of charitable status, with its resulting redistribution of a revoked charity's assets to other charitable purposes, may be the most appropriate.*

Audit of allowable credits or deductions for charitable contributions

10.84 Effective from 1988, an individual taxpayer who donates to a registered charity has been entitled to claim a tax credit. Previously, donations had been treated as deductions, and they continue to be deductible by corporate taxpayers. Corporate donors and individual donors with business income are rarely denied claims for deductions -- even if their contributions have been made to non-registered organizations -- because they can usually justify their expenditures as advertising or business promotion costs incurred for the purpose of earning income. Individuals with salary and investment income are allowed tax credits only for contributions to registered charities.

The concept of registering charities was introduced into legislation in 1966 to ensure receipts could be verified.

10.85 More than 20 million donation receipts are filed annually with income tax returns. In 1988 donations of $2.6 billion were claimed, by 4.9 million individual taxpayers. Corporate taxpayers claimed about $400 million in deductions. This represents an estimated cost to the Crown of $600 million in foregone revenue. The concept of registering charities was introduced into the legislation in 1966 to ensure that receipts could be verified, in response to problems the charitable sector was having in issuing donation receipts.

No appropriate program for validating claims

10.86 Although the Department does examine donation receipts, in our view it does not have an appropriate audit program to determine their validity. Each year more than 63,000 registered charities may provide receipts for tax deductions or credits, and more than 4.9 million individuals claim tax credits.

10.87 The Department of National Revenue, Taxation should establish an appropriate audit program to determine the validity of charitable deductions and credits claimed by taxpayers.

Department's response: *The Department's present procedure is to verify all large claims of charitable deductions during assessment of T1 Returns, while smaller claims are reviewed during the post assessing and examination activities. The Department's verification programs during initial assessment of T1 Returns did not reveal significant problems with this deduction and credit. It is intended to continue with the present practice taking into account the resources available. In addition an element of the charities audit program is to ensure that charities are issuing official receipts in compliance with the Income Tax Act requirements.*

Legislative Rules Require Clarification

10.88 Our audit also identified a number of legislative rules that require clarification.

Insufficient limits on business activities

10.89 The Income Tax Act allows the Department of National Revenue, Taxation the discretion to revoke the registration of a registered charity that is a private foundation, if the foundation carries on any business or if, after June 1950, it acquired control of any corporation. However, the Department does not have the right to revoke registration where a private foundation has inherited or been given shares of a business.

10.90 A registered charity that is a charitable organization or a public foundation is allowed to carry on a related business. "Related business" is defined to include "a business that is unrelated to the objects of the charity if substantially all of the people employed by the charity in carrying on of that business are not remunerated for such employment". The legislation was intended to limit the business activities of registered charities.

A registered charity can carry on a related business.

10.91 In the case of Alberta Institute on Mental Retardation v. The Queen, the majority judgment of the Federal Court of Appeal held that because all funds raised in a business activity had been devoted to charitable activities within the objects of the organization, the business was in fact related. In our view, this judgment and the 1983 Federal Court-Trial Division decision in The Gull Bay Development Corporation v. The Queen (paragraph 10.128) would suggest that almost any business or fund-raising activity would qualify as being "related" to the charitable objects of the organization so long as the funds were used for charitable activities.

10.92 It is possible for a charity that believes its business activity to be unrelated to set up a separate taxable or non-taxable corporation through which the income will be earned. This avoids the risk of the charity losing its registered status.

> ***We believe that although the legislation was intended to limit the business activities of registered charities it is unable to do so.***

10.93 It is also possible for a registered charity to carry on an unrelated business through a trust. Since the trust is not taxed on the income distributed to its beneficiaries, its income flows to the registered charity tax-free.

10.94 There is an endless list of activities carried on by registered charities, selling many services and products to the public (Exhibit 10.4). These activities raise funds that would not be received through normal charitable donations.

10.95 We believe that although the legislation was intended to limit the business activities of registered charities it is unable to do so.

Loanbacks to donor by private foundations

10.96 The legislation enables a private foundation to loan back to a donor with a closer-than-arm's-length relationship all funds donated, provided the foundation has met its disbursement quota. Interest payments on the loans may also be loaned back to the donor.

10.97 Over a number of years, a corporation made charitable contributions of $5 million to several private foundations controlled by individuals whose relationship with the corporation was closer than arm's length. Simultaneous with each contribution, the foundations loaned back an identical amount to the corporation, evidenced by interest-bearing demand notes. The corporation paid the foundations $1.5 million in interest, which it claimed as a deductible expense, and which the foundations also loaned back to the corporation. The funds were not being put to any charitable use by either the corporation or the foundations, yet the corporation had lowered its taxable income by the amounts of the charitable contributions and the interest paid to the foundations.

10.98 It is not clear whether Parliament intended to allow this type of transaction.

Gifts in right of Canada

10.99 The Income Tax Act allows Canadian taxpayers a tax deduction or credit for a gift to a charitable organization outside Canada to which Her Majesty in Right of Canada has also made a gift. At present there are eight such organizations identified by the Department of National Revenue, Taxation.

10.100 The effect is that taxpayers may make deductible or creditable donations to charities outside Canada over which the Department of National Revenue, Taxation has no authority. Money collected in Canada, and subsidized (in the form of tax deductions or credits) by Canadian taxpayers may be channelled to foreign organizations that cannot be monitored to ensure against improper use of the funds.

10.101 An annual gift of $1 made for a number of years by the Department of National Health and Welfare to a foreign organization, at the request of a Canadian taxpayer, has made all Canadian taxpayers eligible to claim a tax deduction or credit for gifts to the same organization. It is not clear whether Parliament intended this to happen.

In 1986 registered charities spent over $250 million outside of Canada.

10.102 In contrast, registered Canadian charities are required to demonstrate that foreign activities in which they are involved are their own. The practice of the Department of National Revenue, Taxation is to require that a Canadian charity control the use of its contribution before the foreign activity may be considered its own. This requires a Canadian charity to enter into a contract or agency agreement with the foreign charity. Such a contract must provide for periodic reporting on how the agent has used the resources. Another method Canadian charities use to fund foreign activities is a joint venture agreement, with the Canadian charity an active member having a voice in administrative and policy decisions. Information in the Department of National Revenue, Taxation's files indicates that in 1986 registered charities spent in excess of $250 million outside Canada.

10.103 Where the intent of the legislation can be circumvented, corrective action should be recommended by the Departments of Finance and National Revenue, Taxation to their Ministers, and Parliament should be informed.

Departments' responses:

Department of National Revenue, Taxation: *These matters are being considered in the current review of the administration of the charities income tax provisions.*

Department of Finance: *The Department is aware that the tax treatment of business activities carried on by charities may require some legislative clarification. Any action must be carefully considered, in order not to discourage charities from pursuing the legitimate fund-raising activities that may be necessary to ensure their financial stability within the community.*

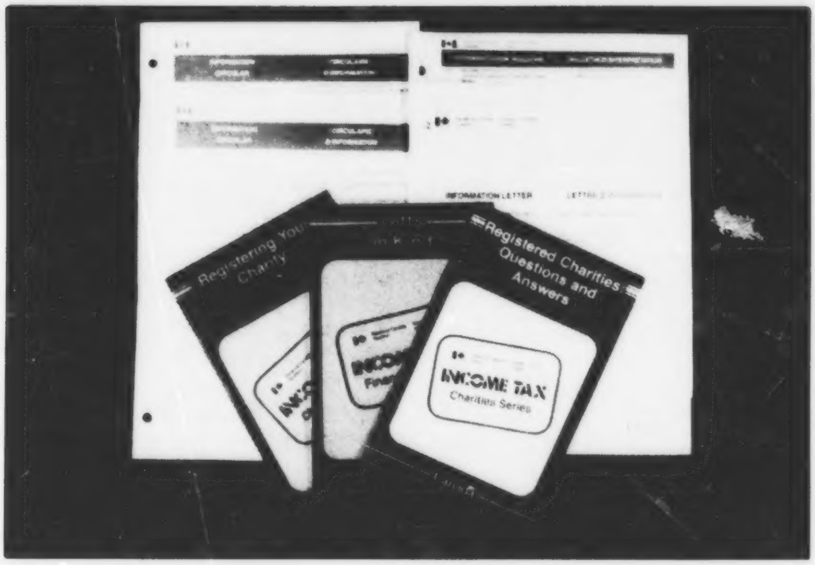
With regard to the issue of loanbacks to donors by private foundations, it is the Department's understanding that each case turns on its facts, which may support a finding that no valid gift has been made to the foundation under the particular circumstances. Therefore no changes to the law may be required.

The Income Tax Act provisions governing gifts in right of Canada are clear. The fact that Her Majesty in Right of Canada has made a gift to a charitable organization outside Canada is a valid basis to conclude that the charitable organization is bona fide.

Information to the Public

10.104 The Department of National Revenue, Taxation provides taxpayers with information circulars, interpretation bulletins and information brochures, including the following titles:

- information circulars: "Operating a Registered Charity"; "Tuition Fees and Charitable Donations paid to Privately Supported Secular and Religious Schools"; and "Ancillary and Incidental Political Activities".
- interpretation bulletins: "Deductible Gifts and Official Donation Receipts"; "Annuities Purchased from Charitable Organizations"; "Gifts of Life Insurance Policies as Charitable Donations"; and "Gifts in Kind to Charity and Others".
- information brochures: "Registering Your Charity"; "Registered Charities: Questions and Answers"; and "Gifts in Kind".



The Department of National Revenue, Taxation provides circulars, brochures and interpretation bulletins explaining the operation of charities and the Income Tax Act (see paragraph 10.104).

10.105 The Department operates a toll-free telephone information service for taxpayers with questions about registered charities.

10.106 It also provides the public with access to information from registered charities. The information in the Public Information Return, which a charity must file within six months after the end of its fiscal period, must be made available to the public. The practice of the Department is to make information available in the form submitted without any disclaimer that the information may not be accurate. To be reliable, information must be timely, complete, relevant, and accurate.

Available information not necessarily reliable

10.107 Timely information. Our audit indicated that timely information is not always available from the Public Information Return. A return is not required from a newly registered charity until six months after the end of its fiscal period. Because the Department is allowed to provide only the information in the Public Information Return, there may be a delay of at least 18 months between the date of a charity's registration and the availability of information to the public.

10.108 The Department's practice of allowing a one-year grace period on the annual filing requirement contributes to its inability to provide timely information on charities that neglect to file returns (see paragraph 10.57).

10.109 Our audit also indicated that complete, relevant and accurate information is not always available to the public.

The information prescribed by the Department of National Revenue, Taxation in the Public Information Return, which a charity must file within six months after the end of its fiscal period, must be made available to the public.

10.110 Complete information. We found that in 17 percent of the files we reviewed, information returns were missing for one or more years between 1982 and 1987.

10.111 Relevant information. The Income Tax Act provides the Department of National Revenue, Taxation with the authority to prescribe the information that the Public Information Return must contain.

10.112 Information such as unaudited or audited financial statements is not prescribed information and cannot be released. Nor can other information the Department may have, such as audit reports, undertakings from a charity, information relating to the accuracy of the Public Information Return, the fact that a notice of proposed revocation may have been mailed, and letters outlining compliance problems. Thus the information that *is* contained in the Public Information Return could be inaccurate or incomplete.

10.113 Accurate information. The Department's procedures do not ensure that an error identified in a Public Information Return is addressed. Identified arithmetical errors are not necessarily corrected. Where information in a financial statement attached to a return does not match the data in the return, the discrepancy in the file could remain unreconciled.

Information in the Public Information Return could be inaccurate or incomplete.

10.114 We reviewed a sample of requests that came from the public in 1990. Of the charities on which information was requested, ten percent of our sample had been previously audited. However, none of the Public Information Returns requested had been audited.

10.115 To ensure that the information in the Public Information Return provided to the public is reliable, the regulations should be reviewed and appropriate action should be recommended by the Department of National Revenue, Taxation to its Minister. The Department should also review its related administrative rules and procedures.

Department's response: *The Department of National Revenue, Taxation does not consider it practical or feasible to check every public information return to ensure that the information reported is accurate. We agree that there would be some benefit in informing the public that the information may not necessarily be accurate. This matter, and the provision of public information generally, is being studied in the current charities review.*

No Measurement of Taxpayer Compliance

10.116 The primary objective of the Department of National Revenue, Taxation is to achieve voluntary compliance with the law to the highest possible degree.

10.117 The main focus of activity by the Registration Directorate is regulatory, with emphasis on continued qualification for registration. The Department does not have a program to analyse examination data and provide the information necessary for management to evaluate the extent of voluntary compliance with the law.

10.118 In the United States, for example, the Internal Revenue Service periodically runs an Exempt Organizations Taxpayer Compliance Measurement Program (TCMP). TCMP supplies measurements and major characteristics of the total population so that alternative ways to use limited resources can be evaluated. In addition to measuring levels of compliance, and changes in them, data are used to improve the efficiency and effectiveness of existing operations in such matters as selection of returns for examination, allocation of resources, taxpayer education programs, return forms and instructions, budget submissions and general tax administration and policy.

10.119 A program with similar objectives would provide the Departments of National Revenue, Taxation and Finance with the information needed to achieve a higher level of voluntary compliance and to develop better tax legislation and regulations. The information provided by the program would also enable

Parliament to better hold both Departments accountable for the administration and maintenance of the income tax provisions directed at registered charities and charitable contributions.

10.120 The Department of National Revenue, Taxation should develop an appropriate program to measure compliance by registered charities.

Department's response: *The Department of National Revenue, Taxation is constantly adapting its compliance programs and ensuring their cost-effectiveness in light of resources available. The Department's compliance program for charities is being reviewed in the present review.*

Although the primary objective of the Department of National Revenue, Taxation is to achieve voluntary compliance with the law to the highest possible degree, it does not have a program to analyse examination data and provide the information necessary for management to evaluate the extent of voluntary compliance.

Non-Profit Organizations and the Income Tax Act

Audit Scope

10.121 During the course of our audit of charities and the Income Tax Act a number of issues related to non-profit organizations came to our attention. This report outlines those that cause us concern.

Background

Qualifying as a non-profit organization provides tax exemption

10.122 Paragraph 149(1)(l) of the Income Tax Act exempts non-profit organizations from paying tax.

10.123 To qualify as a non-profit organization an entity must meet three tests. First, it cannot be a charity. Second, whether a club, society or association, it must be organized and operated exclusively for social welfare, civic improvement, pleasure and recreation, or for any other purpose except profit. Third, no part of its income may be paid, payable, or otherwise made available for the personal benefit of any proprietor, member or shareholder, except in connection with the promotion of amateur athletics in Canada.

10.124 In addition to organizations that meet the requirements of paragraph 149(1)(l) of the Income Tax Act, there are a number of other organizations that are exempted from taxation. These include the Association of Universities and Colleges of Canada, certain housing corporations, labour organizations, and societies and fraternal organizations.

Our Concerns

No Registration or Filing Requirements

10.125 An internal study by the Department of the Secretary of State estimated that in 1986 there were 60,000 incorporated non-profit organizations in Canada. The present number of non-profit organizations has not been determined. There is no registration requirement and it is left to each organization and its advisors to determine whether it qualifies as a non-profit organization under the Income Tax Act. Unlike registered charities, there are no annual filing requirements for non-profit organizations except for those that are incorporated or are trusts. Consequently, the Department of National Revenue, Taxation has not developed a compliance program to secure an effective check on the right of entities to enjoy exemption from taxation, as non-profit organizations.

> *Because there are no annual filing requirements for all non-profit organizations, the Department of National Revenue, Taxation has not developed a compliance program to secure an effective check on their right to enjoy exemption from taxation.*

Legislative Rules Require Clarification

Profit as an objective

10.126 A key element to qualifying as a non-profit organization is that the organization must not have profit as an objective. However, the law does not prohibit the realization of profit. The Department of National Revenue, Taxation takes the view that an organization has profit as an objective when its principal activity is the carrying on of a trade or a business. An activity is so considered if the trade or business is operating in a normal commercial manner; its goods and services are not restricted to the organization's members and their guests; it is operating on a profit-making rather than a cost-recovery basis; or it is operating in direct competition with taxable entities carrying on the same trade or business (see Exhibit 10.4).

10.127 The Department also considers that if accumulated profits exceed the reasonable needs of an organization for conducting its non-profit activities, then the organization is operating for the purpose of profit. Also, the Income Tax Act imposes a tax on the investment income of certain non-profit dining, recreational or sporting organizations, which are otherwise exempted from paying tax.

10.128 In a 1983 decision (The Gull Bay Development Corporation v. The Queen), the Federal Court - Trial Division held that if profit from a commercial activity is used to fund social and welfare objectives the organization is not operating for the purpose of profit.

Members may benefit from non-profit status

10.129 The legislative rules attempt to prohibit a non-profit organization from making any part of its income available for the personal benefit of any proprietor, member or shareholder.

10.130 However, there are circumstances that enable members to benefit from an organization's tax exempt status. For example, a non-profit corporation may distribute 25 percent of its capital gains to its members tax-free and continue to carry on as a non-profit organization. Also, individuals receiving taxable dividends from a former non-profit corporation would be entitled to a dividend tax credit, even though the earnings from which the dividends were paid would not previously have been taxed.

Federal, provincial or municipal entities as conduits

10.131 A corporation, commission or association that is owned at least 90 percent by Canada (excluding prescribed federal Crown corporations), by a province or by a municipality is exempted from taxation.

10.132 To illustrate, say a federal, provincial or municipal government owned 900,000 class 'A' shares in a corporation, worth $1,000 and representing 90 percent of all the issued shares, and a private sector company owned 100,000 class 'B' shares worth $1,000,000, representing 10 percent of all the issued shares.

10.133 Although the private sector company would enjoy 90 percent of the profits, technically the federal, provincial or municipal government would own 90 percent of the

Exhibit 10.4

EXAMPLES OF ACTIVITIES CARRIED ON BY REGISTERED CHARITIES AND/OR NON-PROFIT ORGANIZATIONS

Gift shops, shopping malls, book stores, etc.

Hospitals, universities, religious organizations, environmental groups and other organizations have considerable involvement in retail operations. A tour of any major hospital will reveal a thriving and growing retail industry. Retail book and gift stores are sponsored by charitable organizations. Larger organizations have mail-order operations, distributing their products across the country to members and non-members alike. Universities operate book, gift and clothing stores for the convenience of their students and alumni, and these stores are often open to the public. Many universities have mail-order operations for alumni.

Publishing

Many organizations produce membership or association newsletters or magazines, ranging from internally produced booklets with limited distribution, to full-colour glossy reviews distributed nationally and internationally. Newsstands carry some of these publications while others are available only to members.

Hospitality

During the summer months when their students are on vacation, universities operate their residences and food outlets as any hotel or conference facility would. Even during the school term, rooms and catering services are available for hire. A host of "faculty clubs" can be found on almost any campus in Canada.

Hospitals are also in the food service, catering and cleaning businesses. Ethnic and fraternal organizations operate catering and conference centres.

In providing accommodation -- from downtown hotels to resorts, from children's camps to executive conference facilities -- charitable organizations are major players.

Nursing homes, retirement accommodation, and affordable housing

Religious organizations, municipalities and health care groups are in the business of providing nursing homes and retirement accommodation.

Parking

Parking garages and lots are operated by charitable organizations with facilities often available to and used by the public.

Recreational, fitness and golf clubs

From swimming clubs to skating schools, from exercise equipment to large gymnasiums, non-profit organizations are involved in the fitness and recreation industry. Non-profit organizations own skating rinks, soccer fields, baseball diamonds, football fields and golf courses.

Education

Charitable and non-profit organizations operate day care facilities, nursery schools, night schools, self-improvement courses, weekend seminars, six-week management schools and sports camps.

Trade shows, craft shows, and home shows

Any number of major "shows" can be found in almost every sizeable community in Canada. Many of these are sponsored in whole or in part by non-profit organizations.

Entertainment industry

A quick look through the entertainment pages of the local newspaper will show casino nights, bingo and celebrity nights sponsored by the non-profit sector.

TV and Radio

The charitable and non-profit sector is involved in television and radio productions.

Health care

Community hospitals, support groups, research organizations, meals-on-wheels, palliative care, family counselling groups and home care services are all provided by non-profit and charitable organizations.

Lobbying, self-interest and professional organizations

These non-profit groups exist for the benefit of their members and their particular industries. In some cases they act as regulatory or standard-setting bodies and in other cases they exist to apply pressure to various government entities. They include real estate boards, stock exchanges, jockey clubs and accounting and legal bodies.

shares and the jointly owned company would thus be exempted from taxation.

A non-profit corporation may distribute 25 percent of its capital gains to its members tax-free and continue to carry on as a non-profit organization.

10.134 Private sector firms could thereby benefit from a tax concession that is intended for federally, provincially or municipally owned entities.

10.135 The Departments of Finance and National Revenue, Taxation should review the legislative and administrative framework relating to non-profit organizations.

Departments' responses:

Department of National Revenue Taxation: *In June 1989, the Department of Finance, with the assistance of the Department of National Revenue, Taxation began a review of the legislative and administrative framework governing non-profit organizations.*

Department of Finance: *The tax provisions governing non-profit organizations are currently the subject of internal study, with an eye to ensuring that the current rules continue to conform to the policy intent underlying their exemption. If legislative action is appropriate, the Department will consider it.*

11

Capital Projects

Capital Projects

Main Points

11.1 We examined seven projects ranging from $10 million to $50 million. We found that in many cases planning times were long, with a commensurate increase in project costs (paragraphs 11.12, 11.23, 11.31, and 11.44).

11.2 Whereas the project was completed on time and under budget, we found that the tenants of One Front Street in Toronto exceeded Treasury Board's approved levels for interior fit-up at a total additional cost of $3.4 million. Changes in tenant mix and related changes in user requirements contributed to the increased costs (11.14 to 11.20).

11.3 Saskatoon was selected as the site of the new National Hydrology Research Centre, based in part on the opportunity to use existing university facilities. However, some of these facilities were duplicated at the Centre at a cost in excess of $300,000. A special laboratory and associated office space were designated at the Centre for a Crown corporation at an estimated cost of $850,000. The corporation has no plans to occupy the lab (11.26). The Department of the Environment has actively been seeking suitable tenants to improve the utilization of available space at the Centre (11.27).

11.4 Four forestry centres, at Victoria, Sault Ste. Marie, Ste. Foy and Fredericton, were initially estimated to cost $4.2 million, $1.8 million, $5.8 million and $18.5 million respectively. Final costs were: Victoria $12.2 million; Sault Ste. Marie $16.8 million; Ste. Foy $19.7 million; and Fredericton $30 million -- increases of up to nine times the original estimates. Although some of this escalation could be attributed to inflation, most was due to changing needs, refined requirements or inaccurate initial estimates (11.12, 11.31, 11.37, 11.43, and 11.48).

Table of Contents

Paragraph

Introduction 11.5
We examined seven projects (11.5)

Audit Scope 11.6
Progress of each project (11.6)
Planning and management systems (11.7)
Contracts (11.8)

Audit Findings 11.10
One Front Street (11.10)
National Hydrology Research Centre (11.11)
The Forestry Centres (11.12)

Case Study 1: Renovation of One Front Street, Toronto, Ontario 11.14
Tenants exceeded approved fit-up costs by $3.4 million

Case Study 2: National Hydrology Research Centre, Saskatoon, Saskatchewan 11.21
Duplication of facilities and unoccupied laboratory

The Forestry Centres 11.29
Introduction (11.29)

Case Study 3: Pacific Forestry Centre, Victoria, British Columbia 11.30
No action in response to design review criticism

Case Study 4: The Great Lakes Forestry Centre, Sault Ste. Marie, Ontario 11.36
Changed requirements resulted in major cost increases

Case Study 5: Le Centre de Foresterie des Laurentides, Ste. Foy, Quebec 11.42
Major cost escalation

Case Study 6: Maritime Forestry Centre, Fredericton, New Brunswick 11.47
Funding agreement signed without the source of funds being known

Case Study 7: Indian Schools at The Pas, Manitoba and Pelican Narrows, Saskatchewan
Poor project management at The Pas 11.55
The Pas School (11.55)
Pelican Narrows School (11.60)

Capital Projects

Introduction

11.5 We examined seven projects. In 1982, the Auditor General announced his intention to audit the Canadian government's capital acquisitions. Since then the Office has audited 75 projects, including those we examined this year -- seven smaller projects in the $10 million to $50 million range. The seven projects are: One Front Street, Toronto, the renovation of a heritage building; the National Hydrology Research Centre, Saskatoon; four Forestry Centres (at Sault Ste. Marie, Ontario; Victoria, British Columbia; Ste. Foy, Quebec; and Fredericton, New Brunswick); and two schools at The Pas, Manitoba and Pelican Narrows, Saskatchewan, funded by the Department of Indian Affairs and Northern Development. Currently throughout government there are approximately 250 capital projects in this range, in the planning and acquisition phases.

We examined seven capital projects in the $10 million to $50 million range.

Audit Scope

11.6 Progress of each project. We examined each project using criteria developed by our Office, approved by the Public Accounts Committee and agreed to by the departments concerned. Our examinations covered the progress of each project from the time departments identified the need for a facility to the point to which construction had progressed at the time of our audit.

11.7 Planning and management systems. We examined departmental planning and management systems. We also looked at how projects reflected departmental plans and objectives.

11.8 Contracts. We examined contracts to determine whether officials in the departments and in the service agency, the Department of Public Works (DPW), had followed departmental and Treasury Board direction in developing and awarding contracts for each project.

11.9 For those projects which had reached the commissioning stage -- when the facility is turned over to the Crown -- we assessed how well the building and its equipment met the department's requirements.

Audit Findings

11.10 One Front Street. Internal fit-up costs for this facility in Toronto exceeded the amount approved by Treasury Board by, a total of $3.4 million.

11.11 National Hydrology Research Centre. One of the major considerations in selecting the Saskatchewan Economic Development Corporation in Saskatoon as the site for this centre had been the proposed joint use of nearby existing facilities at the University of Saskatchewan. We noted that some duplicate facilities were subsequently incorporated into the final design at a cost in excess of $300,000. We also found that $850,000 was expended to provide facilities for a Crown corporation which had given no commitment to occupy them.

11.12 The Forestry Centres. We found that planning and construction of these centres by the host departments had taken up to 16 years. During this period costs had escalated as follows:

	Initial Estimates	Final Cost
Pacific Forestry Centre	$4.2 M (1982)	$12.2 M (1986)
Great Lakes Forestry Centre	$1.8 M (1981)	$16.8 M (1986)
Le Centre de Foresterie des Laurentides	$5.8 M (1972)	$19.7 M (1988)
Maritime Forestry Centre	$18.5 M (1982)	$30.0 M (1990)

11.13 Although some of this escalation could be attributed to inflation, most was due to changing needs, refined requirements or inaccurate initial estimates.

Most cost escalations were due to changing needs, refined requirements or inaccurate initial estimates.

Case Study 1

Renovation of One Front Street, Toronto, Ontario: Tenants exceeded approved fit-up costs by $3.4 million

11.14 The Dominion Public Building at One Front Street, Toronto is an important heritage building in a prime commercial area located in the block next to Toronto's Union Station. It was built in 1930 and enlarged in 1936. It contains over 45,000 square metres of floor space, about 31,000 of which is considered rentable. The principal tenants for close to 50 years were Revenue Canada-Customs and Excise, and Canada Post.

11.15 Our audit of the renovation of One Front Street examined only tendering, construction, project management and contract change orders. Needs definition, options analysis and design had been reviewed in 1984.

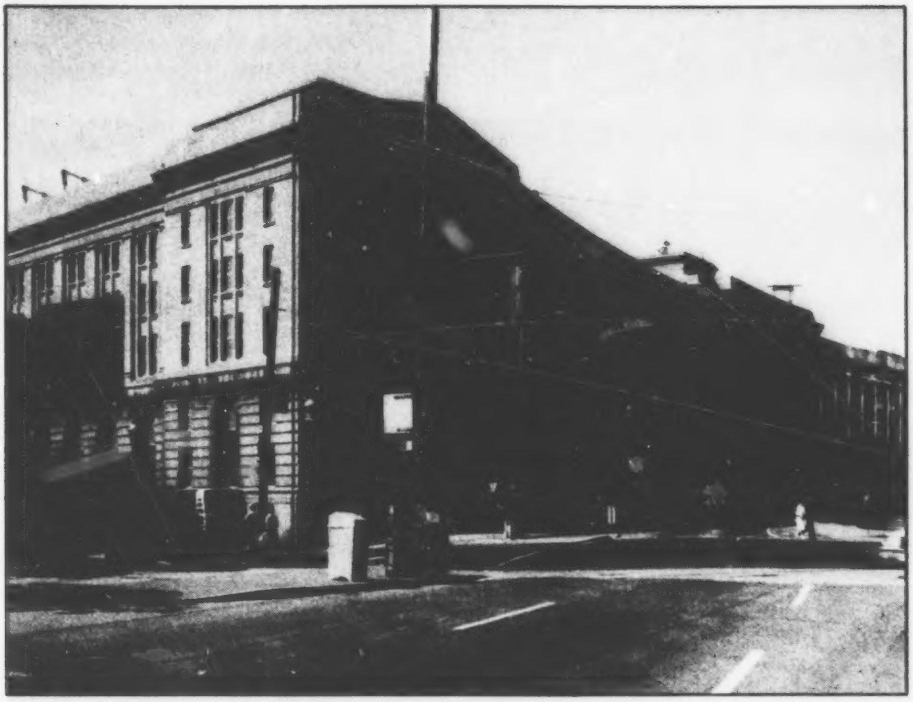
11.16 The design and planning for construction were established by a consultant between 1980 and 1982. Waiting for analyses of options, financing, and Treasury Board approvals delayed effective project approval until 1984, when it was obtained from Treasury Board in the amount of $41,522,000.

11.17 The contract was managed by the architects, reporting to a project manager at the Toronto office of the Department of Public Works.

11.18 The base building renovation was designed on the assumption that the two primary tenants would continue to be Revenue Canada-Customs and Excise, and Canada Post (subsequently Canada Post Corporation - CPC). Their operations lent themselves to open offices. CPC decided not to participate in the capital cost of improvements to the building and to move its operations. As a result, the scenario for occupancy was radically changed. Instead of non-specialized tenants using an open office concept, the tenants would be specialized, performing professional and semi-professional operations in a highly cellular environment. In addition, the increased requirement for microcomputers in the workplace had not been anticipated. This equipment required dedicated power lines and computer cabling systems which had not been part of the original design. All of these new demands entailed changes in heating, ventilating and air-conditioning systems and the rewiring and recircuiting of power lines, with a consequent increase in cost over that of the original design.

Costs for One Front Street could have been $3.4 million lower.

11.19 In accommodating these changes the Department of Public Works decided that, because many of the new requirements should have been part of the original renovation, some fit-up costs would be treated as base building costs. In our opinion, this was contrary to Treasury Board guidance. We found that some tenant departments had obtained Treasury Board approval to exceed, by specified amounts, the limit on standard fit-up costs of



A general purpose building renovated in 1988. All tenants exceeded the approved fit-up costs, by a total of $3.4 million (see paragraph 11.19).

One Front Street, Toronto, Ontario

$82.25 per square metre. However, all tenants exceeded the approved costs for fit-up, whether they had obtained Treasury Board approval or not, by a total of $3.4 million.

11.20 The total cost of the renovation is expected to be about $500,000 below the approved total project cost of $41,522,000. In our opinion, however, had the Treasury Board-approved amounts for fit-up been respected the cost would have been as much as $3.4 million lower.

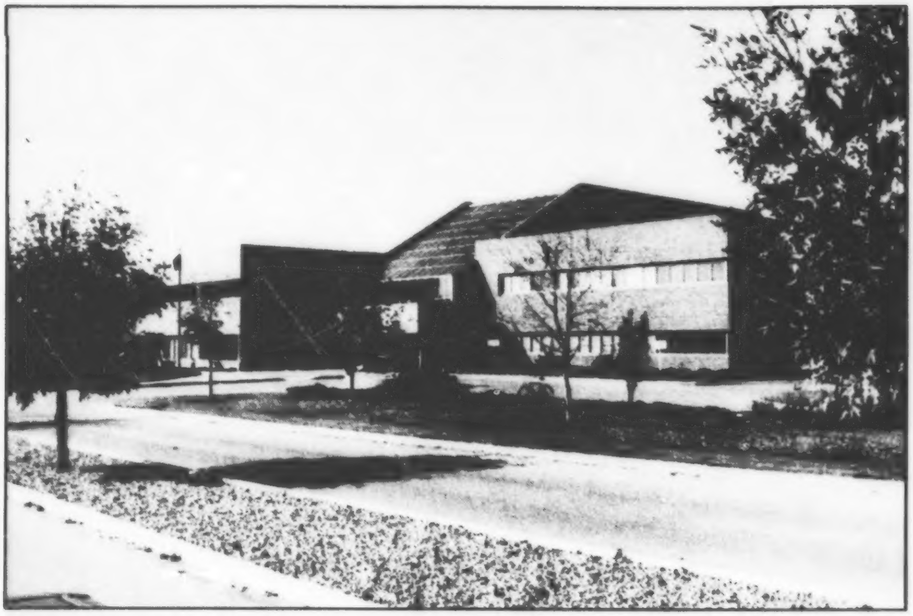
Case Study 2

National Hydrology Research Centre, Saskatoon, Saskatchewan: Duplication of facilities and unoccupied laboratory

11.21 The National Hydrology Research Centre (NHRC), operated by the Department of the Environment (DOE) Inland Waters Directorate at Saskatoon, houses the National Hydrology Research Institute and staff from the Department's Water Quality Branch and Atmospheric Environmental Services. The Inland Waters Directorate has two national research institutes; the other, known as the National Water Research Institute, is located in Burlington, Ontario.

11.22 Before the NHRC opened in 1986 all Inland Water Directorate research work not done in Burlington was conducted at laboratories in the National Capital Region, Chalk River, Toronto, Sault Ste. Marie, Winnipeg, Regina, Saskatoon, Calgary, Canmore and Vancouver. These facilities, with the exception of Regina, have since been closed.

11.23 In 1977 the Task Force on Decentralization decided that Saskatoon would be the home of the new NHRC. In 1978, based on DOE requirements of 146 staff and 9,012 gross square metres, the Department of Public Works (DPW) estimated the cost of the project



National Hydrology Centre, Saskatoon, Saskatchewan

The site was chosen for the availability of existing facilities, which were then duplicated in the Centre at a cost of $300,000. About one-quarter of the Centre remains unused. (see paragraphs 11.26 and 11.27).

at $10.3 million, built and equipped. Preliminary project approval was given by Treasury Board in 1982, based on a preliminary estimate of $18.1 million to provide 6,921 square metres net area for 136 staff. This included space for seven Atomic Energy of Canada (AECL) staff and a specialized two-storey laboratory for their use.

11.24 After several sites in Saskatoon had been evaluated, the Saskatchewan Economic Development Corporation (SEDCO) site was selected, adjacent to the University of Saskatchewan. A major consideration in selecting this location was the opportunity for joint use of University facilities, including proposed flume laboratories for the engineering department, conference rooms, cafeteria and library services.

11.25 The needs definition for the project was developed by DOE and its consultants, with considerable involvement of scientific and administrative staff members designated for relocation to Saskatoon. The options analysis was undertaken jointly by DOE and DPW; project definition was under the direction of the prime consultant. Effective Project Approval for $16.1 million was received in July 1984. Construction began in September 1984; occupancy took place in 1986 and the final acceptance certificate was signed in June 1987.

11.26 Although the use of existing University facilities had been a major consideration in selecting the site, some duplicate facilities were subsequently incorporated into the final design phase. NHRC now contains its own library, conference rooms and a cafeteria, at a cost in excess of $300,000 in 1978 dollars. We also noted that AECL never occupied the space that had been constructed for them at a cost of $850,000. AECL informed DOE in 1985, during the construction period, that it would not provide seconded research staff to use the laboratory. We noted that before beginning construction DOE did not have a commitment from AECL to occupy space in Saskatoon.

11.27 At the time of our audit, three years after the project's completion, about one-quarter of the complex was empty. Of the 92 staff members originally designated to relocate from other DOE facilities, 32 did not, and five who did left within two years. DOE has been actively seeking suitable tenants to improve the utilization of space at the Centre.

Three years after completion, one-quarter of the complex was unoccupied.

11.28 The project was completed at a cost of $16 million, on time and within budget.

The Forestry Centres

11.29 **Introduction.** The Canadian Forestry Service, now the Department of Forestry (DOF), comprises a headquarters unit in Ottawa, six Forestry Centres (St. John's, Nfld.; Fredericton, N.B.; Ste. Foy, Que.; Sault Ste. Marie, Ont.; Edmonton, Alta; and Victoria, B.C.), and two national institutes (the Petawawa National Forestry Institute, Petawawa, Ont. and the Forestry Pest Management Institute in Sault Ste. Marie). The forestry centres are responsive to regional priorities but frequently lead national programs. The Canadian Forestry Service was part of the Department of the Environment (DOE) and then the Department of Agriculture (DOA) during the planning and construction of the projects. All these projects were approved under the Special Recovery Capital Projects Program (SRCPP).

Case Study 3

Pacific Forestry Centre, Victoria, British Columbia: No action in response to design review criticism

11.30 The original forestry centre in Victoria was built in 1965. A 50 percent increase in professional, technical, and support staff by 1975 necessitated an expansion of the facility. The expansion was first included in the major construction program of the Department of the Environment in 1975.

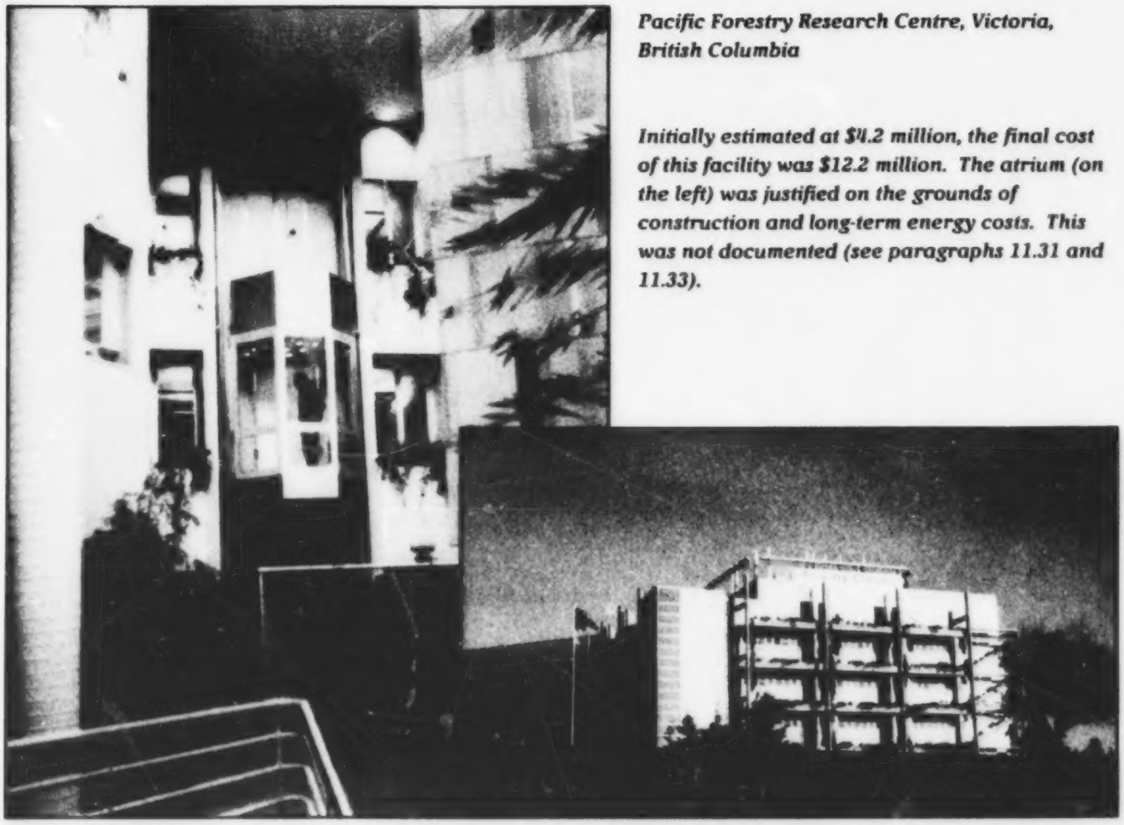
11.31 Preliminary cost estimates for the renovation and expansion were roughly estimated by the Canadian Forestry Service at $4.2 million in 1982/83. By 1983/84 a refined estimate, based on a DPW-accepted design, was established at $14 million. Preliminary project approval for this amount was obtained in February 1983; shortly afterward, the project was approved under the Special Recovery Capital Projects Program.

11.32 The preliminary design was carried out by the consultant who had prepared the conceptual design and had estimated the costs. The same consultant subsequently acted as construction consultant, reporting to a project manager at DPW.

11.33 The design review conducted by the Building Design section of DPW noted that, although the estimated cost of construction was within budget, there was concern over the appropriateness of the design in relation to DPW's current guidelines, as well as its relationship to the existing building. Matters of concern included the atrium design, the reception area and the exposed elevator in the atrium. We found no documentation indicating that any action had been taken in response to these points, and the items had not been changed. The Project Manager (DPW) explained to us that all of the points raised had been fully considered and resolved to everyone's satisfaction. He stated that it was not DPW practice to respond formally to design reviews, but that reference to these items would probably have been included in some of the minutes of project management meetings. DPW was unable to produce this documentation.

11.34 The project was divided into five phases to facilitate the compressed construction schedule necessitated by SRCPP deadlines. Contracts were let to the lowest bidder on each phase.

11.35 Total change orders amounted to only three percent of the total contract price. The final cost was approximately $1,750,000 below the 1983/84 estimated cost. This was mainly due to very close supervision and good project



Pacific Forestry Research Centre, Victoria, British Columbia

Initially estimated at $4.2 million, the final cost of this facility was $12.2 million. The atrium (on the left) was justified on the grounds of construction and long-term energy costs. This was not documented (see paragraphs 11.31 and 11.33).

management practices, as well as highly competitive conditions in the construction industry at the time of tendering. The project received the Governor General's Medal for Architecture in 1986.

Case Study 4

The Great Lakes Forestry Centre, Sault Ste. Marie, Ontario: Changed requirements resulted in major cost increases

11.36 The Forestry Pest Management Institute (FPMI) in Sault Ste. Marie had been housed in the Cameron Building (built about 1950) which was adjacent to the Great Lakes Forestry Centre (GLFC) built in 1975. After additions and modifications to the GLFC in 1987, the Cameron Building was demolished and the FPMI was accommodated within the overall additions to the GLFC.

11.37 Forestry Service had established a need for additional space at the GLFC in 1980, and had examined the options available and initially selected the option of modernizing the Cameron Building. A consultant's study completed in 1981 focussed on this option and estimated the cost at $1.8 million. The Department of the Environment's construction priority lists show estimates of $2.5 million in 1981/82 based on the Cameron Building option, and a subsequent $13 million in 1983/84 based on modifications and additions to the GLFC, after the Cameron Building option had been discarded. The project was subsequently approved under the Special Recovery Capital Projects Program (SRCPP) at $17.43 million, to modify the GLFC. We noted that no benefit/cost analysis was conducted on the project. Given the major changes in scope and the escalation in estimated cost, an analysis should have been conducted.

Final cost was $1.75 million below estimates, due to close supervision and good project management.

11.38 The original project was to modernize the Cameron Building for the FPMI, and a consultant had been employed to examine this option. However, before the consultant's report was submitted Forestry Service, through DOE, had indicated a preference for modifying the GLFC. Subsequently, a second consultant was employed to address the modifications to the GLFC, and the report on the Cameron Building was effectively discarded.

11.39 The project was conducted in three phases with separate contracts. Phase I was contracted for in October 1983, Phase II in July 1984 and Phase III in January 1986.

11.40 There were project management difficulties with the construction of this facility; because of the time pressures of SRCPP the consultant did not have sufficient time to finalize the client's needs before construction began.

Time pressures left insufficient time to finalize the client's needs before construction began.

11.41 The construction portion of the project was completed at a cost of $15 million. Additional minor contracts associated with but not forming part of the capital project raised the total cost to $16.8 million. Although the Forestry Service had known there was no vapour barrier on the facade of the original GLFC building, an installation was not included in the main renovation project. Lack of a moisture barrier has resulted in damage to the brickwork, which it is estimated will cost $2 million to replace.

Case Study 5

Le Centre de Foresterie des Laurentides, Ste. Foy, Quebec: Major cost escalation

11.42 In the early 1980s, the administrative offices and laboratories of Le Centre de Foresterie des Laurentides (CFL) were housed in a building constructed more than twenty years earlier and in six general-purpose huts on a lot adjacent to Laval University. The need for additional space had been discussed since the 1960s.

11.43 In 1972 an estimate of $5.8 million was established for the construction of a new wing; DOE submitted the project to Treasury Board with a price tag not to exceed $5 million. In 1983, DOE requested SRCPP funding. The CFL was selected by DOE for inclusion in this program and was listed at the originally estimated cost of $5 million.

11.44 Recognizing the $5 million to be an inadequate amount because of inflation alone, DOE requested a budget revision in 1983. Under pressures of time, the departmental Material and Accommodation Management Directorate arrived at a figure of $10.8 million. However, this did not take into account the cost of new greenhouses, new laboratory equipment and fees to DPW. In August 1984, after the needs analysis and estimates had been refined, effective project approval was given for $18.1 million. In May 1987 the client, by then the Department of Agriculture (DOA), obtained approval for an additional $436,000 to cover projected cost overruns, bringing the total funding to $18.5 million. These extra funding commitments resulted from a claim settlement of $327,000 for bonding insurance, and landscaping costs committed internally by DOA, eventually resulting in a total project expenditure of $19.7 million.

In general, DPW managed the construction phase of the project in a sound manner.

11.45 Because of pressures to meet construction deadlines the planning phase was compressed, so that cost estimates were inadequate and no options analysis was conducted. We also noted that $95,897, representing 23 percent of the recoverable amounts, was forfeited in handling a bonding company's offer for claim settlement, following withdrawal by the successful low bidder.

11.46 We note that, although the project's estimated cost escalated from $5 million to $18.43 million during the planning stage and to $19.7 million by final completion, the facility meets the client's needs. Cost overruns and construction change orders were anticipated and were well documented. In general, DPW managed the construction phase of the project in a sound manner. At the time of the audit, two construction claims for a total of $864,939 were outstanding against the project.

Case Study 6

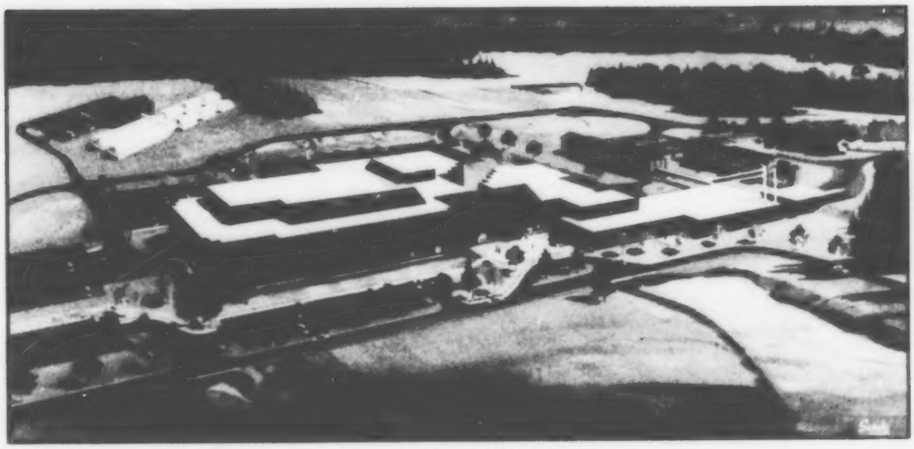
Maritime Forestry Centre, Fredericton, New Brunswick: Funding agreement signed without the source of funds being known.

11.47 Proposals were initiated before 1980 for a forestry research centre to be constructed jointly with maritime provincial interests and the University of New Brunswick, as part of a forestry research and training complex at Fredericton. The Maritime Forestry Complex Corporation, set up in 1980 to co-ordinate the plans of all users, assumed all project management functions in 1985 when effective project approval was granted.

11.48 During the planning stage leading up to preliminary design, the services of the Department of Public Works (DPW) were retained to assist in managing the project. In early 1984 a concept design, costed at $18.5 million, was accepted by the Department of the Environment. Three months later, after refinement of the estimates, costs escalated to $24.7 million; changes in space usage, and an increase in the gross floor space from 10,730 to 14,902 square metres, had not been taken into account in the initial estimates. The Forestry Service, the host department, and DPW based estimates on outdated information and relied on erroneous figures for gross floor areas. Federal indecision about project financing, and extensive negotiations on joint project management among the various partners in the project, created delays.

11.49 Project management in the early planning stage suffered from inadequate co-ordination and control, contributing to an increase in project costs. No formal management agreement setting out their respective responsibilities was signed between the Forestry Service and the Department of Public Works. There was therefore no assurance of a common understanding on project management responsibilities or on the assignment of necessary project activities to be carried out.

11.50 In 1982 preliminary project approval had been granted for $22.5 million, to construct the research centre as part of the overall complex near the University of New Brunswick. In April 1983 funding had been sought from the Special Recovery Capital Program (SRCPP). By 1985 the Canadian Forestry Service had recognized that it could not meet the SRCPP delivery criteria, and was denied funding. Nevertheless, the project was announced by the government under SRCPP. In 1985 effective project approval was granted at $35 million; however, the Department of Agriculture was required to fund $12.5 million of this amount from its internal resources. Despite the Department of Agriculture's recognition that the source of funding was not known, in May 1985 Forestry Service signed a contribution agreement with the Maritime Forestry Complex



Originally estimated at $18.5 million, the final cost of this centre was $30 million. The Department signed a funding agreement despite being unsure that it would be able to provide its share of the cost (see paragraphs 11.48 and 11.51).

Maritime Forestry Research Centre, Fredericton, New Brunswick.

Corporation and later a 99-year lease on the proposed structure.

11.51 Following the decision to fund the project under a contributions agreement and to transfer project management to the Maritime Forestry Complex Corporation, user needs were re-evaluated, leading to re-design at a cost of $300,000. This resulted in a reduction by $5 million in the estimated costs of the project, to $30 million.

11.52 Subsequently, in August 1985, a Master Agreement was signed setting out the relationships among the various participants: Canada, New Brunswick, University of New Brunswick, the Ranger School and MFCC.

> *Project management in the early planning stage suffered from inadequate co-ordination and control.*

11.53 By 1987, the Department was still unable to meet its funding obligations from internal resources and so negotiated financing from Treasury Board, for $8 million repayable over three years. The inadequate funding arrangements contributed to a halt in the project in late 1984 which lasted six months, and also delayed finalization of agreements with the other partners in the complex.

11.54 The facility was constructed by the MFCC, under rigorous project management designed to deliver the project economically and efficiently and to meet the intended users' requirements. Completion in 1990 is anticipated to be within the revised budget.

Case Study 7

Indian Schools at The Pas, Manitoba and Pelican Narrows, Saskatchewan: Poor project management at The Pas

The Pas School

11.55 We examined the construction of an elementary/secondary school at The Pas by The Pas Band, under two contribution arrangements financed by the Department of Indian Affairs and Northern Development (DIAND). Existing school facilities had consisted of a renovated senior citizens' building and part of a shopping mall owned by the Band. These schools were reported as meeting neither fire safety standards nor provincial standards for education facilities, and in the circumstances they had to be replaced.

11.56 Design of a new school with 17 classrooms was based on departmental standards for education facilities, and met the applicable standards. Based on the design, Treasury Board gave effective project approval in May 1989 for an estimated $11.92 million cost, including a contingency amount of $1.06 million. The Construction Contribution Arrangement was signed between the Department and the Band in July 1989. Construction began in August 1989, managed by The Pas Band.

11.57 Problems arose almost immediately in the construction phase. Procedures for pouring and testing concrete, and concrete poured contrary to the architect's direction, raised concerns about construction practices and project management. Tendering and contracting procedures and cost control were also brought into question. The situation became serious enough that in December 1989 the Regional Director of Indian Services stopped all construction until the Band could confirm that the project would be managed in accordance with accepted procedures for project management and cost-control.

11.58 Following the appointment by the Band of a professional management firm to supervise the construction, activity began again in late December 1989. Since then the project has been closely monitored. In our opinion, prompt action by the Regional Director of Indian Services brought the project management to an acceptable standard.

Estimates for completion of construction have increased by $2 million.

11.59 Nonetheless, latest estimates for completion of the construction have increased by approximately $2 million.

Pelican Narrows School

11.60 This project received Initial Project Approval in 1979 for an estimated cost of $6.07 million and Effective Project Approval in 1984 for a revised cost of $11.3 million. Some delays in starting construction were incurred by negotiations on cost sharing with the Province of Saskatchewan. Construction began in 1986 and commissioning is scheduled for 1990.

11.61 Once started, the design and construction went very well under the management of the Department of Public Works. Aside from some minor engineering problems which are being resolved, the construction of this facility satisfies the needs of the Band.

Comprehensive Audits

The following Comprehensive Audits have been conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants.

12

Immigration

Management of the Immigration Program

Immigration

Management of the Immigration Program

Main Points

12.1 Canada is in the forefront of nations whose economic, social, and cultural development has been and continues to be influenced by immigration. Given the importance of this role, the complexity of the program, the benefits derived and the extensive costs involved, the successful management of the Immigration Program is of profound significance (paragraph 12.10)

12.2 The size of the Immigration Program operation is substantial. Over 100 million people enter Canada each year, all of whom must be questioned and whose identity must be established. About 500,000 are visitors requiring visas; a further 200,000 are immigrants that must be interviewed and checked for health and security before acceptance. Canadian immigration policy is to facilitate the admission of those with legitimate reasons for entry, but to deny entry to those who do not meet our criteria (12.13 to 12.19).

12.3 Increasing migration pressures, the introduction of the Canadian Charter of Rights and Freedoms, representations on specific cases by elected representatives, non-government organizations and private citizens, as well as immigration agreements with provinces, are important factors affecting the management and delivery of the Immigration Program (12.16 to 12.31).

12.4 While we recognize the difficulties caused by these factors, this sectoral audit has led us to conclude that Employment and Immigration Canada (EIC) has not exercised fully the co-ordinating and monitoring roles required by its legislative mandate and expected from the accountability placed on its Minister regarding the Immigration Program. Roles, responsibilities, and accountabilities have not always been clearly established for certain important aspects of the program (12.37 to 12.48)

12.5 Our examination revealed that, for the last three years, the actual number of immigrant landings significantly exceeded the range announced each year to Parliament. This has an impact on immigrant settlement activities and raises questions about adherence to the intent of the Act and the accountability of management (12.49 to 12.59).

12.6 While EIC and the other departments and agencies have implemented training programs for personnel carrying out immigration activities, some employees are not adequately trained and there is no assurance that they possess the knowledge and skills necessary to discharge their duties (12.60 to 12.70).

Main Points (cont'd)

12.7 Our examination also revealed that achievements have been made in cost-recovery. User fee revenues, however, represent only a minor proportion of the costs of providing immigration services. Opportunities exist to recover a higher proportion of immigration costs (12.71 to 12.82).

12.8 The effectiveness of certain vital components of the Immigration Program, such as selected workers, family class and designated classes, as well as health and security controls, has never been evaluated (12.83 to 12.88).

12.9 The information on immigration presented in Part IIIs of the Main Estimates is incomplete and fragmented. The lack of data on costs and results does not give members of Parliament an overall picture of the performance of the Immigration Program and its resource requirements (12.89 to 12.97).

Table of Contents

Paragraph

Introduction 12.10

Description of the Program

Objectives 12.13

Key Activities and Resources 12.14
Seven departments and agencies are involved (12.20)

Operating Environment 12.26

Objective and Scope of the Audit 12.32

Observations and Recommendations

Co-ordination of the Immigration Program 12.37
Most interdepartmental agreements are incomplete (12.40)
Co-ordinating and monitoring infrastructure needs to be improved (12.43)

Management of Immigration Levels 12.49
Planned immigration levels have been significantly exceeded for the last three years (12.53)

Training of Personnel with Immigration Responsibilities 12.60
Some personnel with immigration responsibilities are not adequately trained (12.62)
Responsibilities for training are not clear (12.69)

Immigration Cost Recovery 12.71
Cost recovery for immigration services is increasing (12.74)
User charges could be imposed on a broader range of immigration services (12.79)

Program Evaluation 12.83
Important program components have not been evaluated (12.83)

Information to Parliament 12.89
Information to Parliament is incomplete and fragmented (12.89)

Exhibits

12.1 Immigrant Landings 1980-89
12.2 Number of Immigrants Exceeding Plan
12.3 User Fees and Costs for Recoverable Immigration Services

Immigration

Management of the Immigration Program

Introduction

12.10 Canada is in the forefront of nations whose economic, social and cultural development has been and continues to be influenced by immigration. Sixteen percent of our current population was born abroad. Numerous public and privately-sponsored studies have pointed out many benefits of immigration to Canada. Given the continuing importance of immigration to this country's development, and the expenditures and benefits involved, the successful management of the Immigration Program is of profound significance.

12.11 In our last audit of Immigration, which was reported in 1982, we concentrated on immigration activities carried out by Employment and Immigration Canada (EIC), the Department of External Affairs (DEA) and National Revenue - Customs and Excise (Customs). For this audit, we adopted a broader sectoral approach, in which our examination was carried out in all seven departments and agencies involved in the delivery of the Immigration Program at the federal level. This gave us an overall picture of the program and of the interactions between participants.

Seven departments and agencies are involved in the Immigration Program.

12.12 The results of this sectoral audit are presented in four interrelated chapters. This chapter outlines our conclusions on the overall management of the Immigration Program and addresses some program-wide issues. Chapter 13 provides the results of our audit of the foreign delivery of the Program. Chapter 14 deals with the new refugee status determination system and the treatment of the refugee backlog. Finally, our observations and recommendations on control and enforcement activities are presented in Chapter 15.

Description of the Program

Objectives

12.13 Immigration in Canada is governed by the Immigration Act and Regulations. The Act contains the objectives that are to guide the design and implementation of immigration policy, rules, and regulations. As stated in Part III of EIC's Estimates, the Immigration Program is designed to "contribute to the economic, social, humanitarian and cultural interests of Canada and to meet our international responsibilities through the administration and admission of immigrants and visitors to Canada, the settlement of immigrants in Canada, and the provision of effective control of persons seeking to come into or remain in the country, taking into account the health, safety and security needs of Canada."

Key Activities and Resources

12.14 The Immigration Program has five main activities: selecting immigrants; controlling visitors; enforcing the Immigration Act; processing refugee claims; and helping immigrants settle into Canadian communities. Although there are no consolidated figures available for the Immigration Program, the various resources devoted to immigration activities for 1990/91 are estimated to be in the order of $480 million and 4,900 person-years.

12.15 Selection activities include the definition of selection criteria, the determination of immigration levels, and the processing of immigrant visas in Canadian missions abroad. During the last decade, selection activities have led to more than 1.2 million immigrant landings. Exhibit 12.1 provides a breakdown of annual landings by main immigration component for that period.

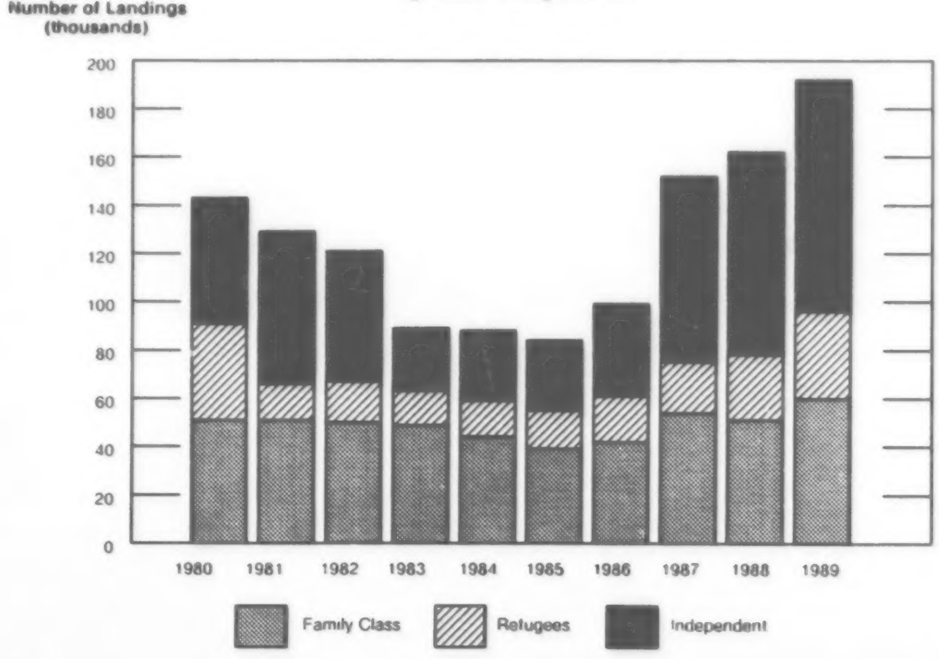
12.16 Control activities are intended to prevent the admission of people who may be harmful to the health, safety, security, and social and economic well-being of residents of Canada. They also facilitate the entry of bona fide visitors for the purpose of fostering trade, tourism, cultural and scientific activities, and international understanding. Control activities include health and security checks abroad and in Canada, port of entry examinations, and the issuance and extension of documents such as visitor visas and work authorizations. In 1989/90, control activities included more than 100 million examinations at ports of entry, the issuance of 513,000 visitor visas, 310,780 student and employment authorizations, and 129,200 visitor documents.

12.17 Enforcement activities are directed towards individuals who contravene the Immigration Act and Regulations. These activities include immigration investigations, inquiries, arrests, detentions, and removals. In 1989/90, enforcement activities led to 70,000 reports on infractions to the Act, and 2,400 removals from Canada.

12.18 Persons requesting the protection of Canada from persecution in their home country can claim refugee status. A separate independent agency, the Immigration and Refugee Board (IRB), determines whether

Exhibit 12.1

IMMIGRANT LANDINGS 1980-1989
by Main Components



SOURCE: Employment and Immigration Canada these claimants meet the Geneva Convention definition of refugees. EIC must grant permanent resident status to those who are confirmed as refugees and who meet statutory landing requirements. At the end of 1988, some 85,000 cases were waiting to be processed. An additional 21,745 refugee status claims were made in Canada during 1989.

12.19 The Immigration Act also includes provisions for assisting immigrants who have recently arrived in Canada. EIC helps them, through contributions and loans, to adapt to Canadian society.

Seven departments and agencies are involved

12.20 The prime responsibility for the Immigration Program lies with EIC. The Minister of Employment and Immigration is accountable to Parliament for program results. However, seven departments and agencies are involved in program delivery, all with distinct roles to play and special expertise to contribute to the meeting of immigration objectives. In addition, the federal government entered into immigration agreements with seven provinces. These agreements provide various authorities to provinces in the immigration field.

12.21 EIC national headquarters personnel are responsible for the development of immigration policies and procedures, the review of regulations, and the provision of functional direction to field and operational units, and to other departments and agencies. There are over 100 Canada Immigration Centres (CICs) established under a regional organization in each province. The CICs located at ports of entry along the border between Canada and the United States and at international airports in Canada deal primarily with the examination of persons seeking to enter Canada. Inland CICs and Canada Employment Centres, located in major cities and towns, deal primarily with immigrant sponsorship, visitor extensions, settlement, investigation, arrest, detention and removal activities.

12.22 The selection of immigrants and the processing of immigrant and visitor visa applications are done, for the most part, abroad. These activities are under the responsibility of the Department of External Affairs (DEA).

The Minister of Employment and Immigration is accountable for Immigration Program results.

12.23 The primary examination of people coming into Canada is usually done at some 600 ports of entry by Customs. Persons requiring further examination are normally referred to EIC immigration officers.

12.24 The Department of National Health and Welfare (HWC) is responsible for assessing the medical condition of prospective immigrants and certain visitors to Canada. The Canadian Security Intelligence Service (CSIS) provides advice to EIC on security matters in relation to immigrants. EIC refers certain apparent offences under the Immigration Act to the Royal Canadian Mounted Police (RCMP) for investigation and possible prosecution.

12.25 The Immigration and Refugee Board (IRB) is an independent organization responsible for hearing appeals in certain immigration cases, mostly in the family class, and determining whether an individual making a refugee claim meets the Geneva Convention definition of a refugee.

Operating Environment

12.26 In addition to the division of responsibilities described above, the design and delivery of the Immigration Program are influenced by a number of external factors.

12.27 **Migration pressures are increasing.** Worldwide migration pressures are mounting. It has been estimated that some 80 million people, including about 15 million refugees, are currently on the move to find better economic opportunities and social conditions. Canada, with its reputation of providing safe haven to displaced persons, its economic and social stability, and its easy access to employment and social support systems, is considered an attractive destination. Migration pressures have an impact on all components of the program, particularly on the processing of applications abroad, on enforcement and control, and on refugee-related activities.

12.28 The immigration system is becoming more burdened with litigation. Following the introduction of the Canadian Charter of Rights and Freedoms in 1982, the approach to the selection of immigrants moved away from reliance on the visa officer's assessment of the immigrant's ability to adapt to Canadian society, toward a more legalistic application of selection criteria stated in the Immigration Act and Regulations.

12.29 The Canadian Charter of Rights and Freedoms, in particular as interpreted by the Supreme Court of Canada in the 1985 Singh decision, provides that protection under section 7 (life, liberty and security of the person) is applicable to "everyone" in Canada, not only citizens and permanent residents or other persons lawfully in Canada. Under the Charter, additional rights are available to everyone who is physically present in Canada, such as the right not to be detained without just cause, the right on arrest or detention to be informed promptly of the reasons, the right to retain and instruct counsel without delay, and the right to challenge detention by "habeas corpus".

12.30 Thus, immigration policies and procedures must take into account legal decisions on immigration matters being handed down by the courts. This situation has a far-reaching impact on immigration control and enforcement and on the refugee determination system.

12.31 The Immigration Program is sensitive and subject to numerous representations. The Immigration Program deals with people; thus, it contains numerous exceptions and special cases. Immigration matters frequently command widespread media attention because of their human dimension. In addition, elected representatives, non-government organizations and private citizens often make representations to immigration officials on specific cases.

Managing immigration in today's environment is a major challenge.

Objective and Scope of the Audit

12.32 The overall objective of the audit was to assess whether immigration activities were managed with due regard to economy and efficiency, and whether satisfactory procedures to measure and report on the effectiveness of the program were in place. We also examined the extent to which operations were conducted in compliance with the Immigration Act and Regulations.

12.33 To this end, we examined four major areas of the Immigration Program: the overall management of the program; the delivery of immigration activities abroad; the processing of refugee claims in Canada; and control and enforcement activities. Settlement activities were excluded from the scope of the audit.

12.34 Our assessment of program management focussed on the mechanisms for co-ordinating the activities of EIC and the participating departments and agencies, the management of immigration levels, training of personnel involved in immigration, cost recovery, program evaluation, and reporting of information to Parliament.

12.35 The audit scope for foreign delivery, refugees, and control and enforcement activities is outlined in the relevant chapters.

12.36 Audit criteria were discussed with senior management of all departments and agencies involved and are reflected in each section of this and the following three chapters. We also relied, where appropriate, on work performed by departmental internal audit groups.

Observations and Recommendations

Co-ordination of the Immigration Program

12.37 We recognize that managing a program as complex and widespread as Immigration in today's environment presents substantial difficulties and challenges. The program requires a well-informed lead authority to co-ordinate, and provide direction to, the entities involved.

12.38 As the department ultimately accountable before Parliament for the results of the program, EIC needs to have assurance that throughout the program, both structures and practices are in place for co-ordinating and controlling the program elements. Within this multidepartmental framework, each participant must be fully conversant with the overall program goals and how its own contribution adds to the whole; each must understand its role and responsibilities; and each must be able to provide a reliable account of its performance.

12.39 We looked for evidence of the extent of the co-ordination role played by EIC in its management of the program and its relationship with each of the other participants. We found that EIC has not fully exercised the co-ordination and leadership roles called for by its mandate and required for a program as widespread as Immigration. There are many references, in this chapter and in the following three, to problems related to program co-ordinating and monitoring.

Most interdepartmental agreements are incomplete

12.40 Because the Immigration Program is decentralized, interdepartmental agreements are an important part of the accountability structure and form the basis for the co-operation that must exist among all participants. While their importance varies with the nature of activities involved, we expected to find interdepartmental agreements between EIC and each department and agency involved in the program. We assumed that these agreements would cover all important immigration activities and would include a clear description of the mandates, responsibilities and accountabilities of each party. We also supposed that the agreements would provide for a means of monitoring adherence. We found that most of the agreements in place at the time of our audit did not consistently meet these criteria.

12.41 Our review of existing interdepartmental agreements revealed that responsibilities and accountabilities for some important immigration activities are not always addressed. These include training of personnel with immigration responsibilities, evaluation of program effectiveness, and criminality checks. We raise concerns about these activities in this and the following three chapters.

12.42 Protecting the health of Canadian residents is a very important objective of the Immigration Program. While the Ministers of Employment and Immigration and of National Health and Welfare share the overlapping legislative responsibility for the health of immigrants, refugees, and certain visitors, there is no interdepartmental agreement between EIC and HWC. In Chapter 15 (paragraphs 15.78 to 15.82), we raise serious concerns about medical admissibility criteria. We believe that the importance of the health protection objective of the Immigration Act fully warrants a formal agreement and a clear statement of the responsibilities and accountabilities of each Minister.

Co-ordinating and monitoring infrastructure needs to be improved

12.43 The program is co-ordinated and monitored through an operational communication network based upon the working relations between officials, and through ad-hoc bilateral and multilateral consultation committees, especially with DEA, which meet to discuss and direct various aspects of the program. However, the establishment of more structured and rigorous means of co-ordinating and managing the program is essential.

12.44 We found that, in the main, EIC does not use a co-ordinating infrastructure for the management of the program. One of the few established co-ordinating committees that meets regularly involves EIC and DEA. It convenes on a monthly basis and provides a forum for information exchange on current issues and problems. Our review of its agenda and minutes shows that program performance and management control matters are not discussed.

12.45 The mere existence of a committee does not ensure adequate co-ordination of activities. For example, a national joint committee was established in 1986 to oversee the implementation of the interdepartmental agreement between EIC and Customs, and to monitor adherence to its provisions. However, the committee has met only once, in December 1986, and the existing agreement has not been fully followed. While the agreement provides for EIC to design and deliver immigration training courses to customs officers, we found that officers in the regions we visited had received inconsistent and limited training. We also noted lack of adherence to provisions of the agreement dealing with the development of a performance measurement system on immigration matters handled by Customs, and with the division of responsibilities between EIC and Customs (see Chapter 15, paragraphs 15.32, 15.33 and 15.45).

12.46 A similar view has been expressed by the Treasury Board, which has pointed out the need for such co-ordination twice in the last three years. In 1987, EIC and the Treasury Board Secretariat were directed by Treasury Board to establish an interdepartmental committee to collectively review the management of the costs of the refugee status determination system and to provide an assessment of the appropriate reference levels for the Immigration Program, including alternative ways of managing cost pressures. This direction was not complied with.

12.47 In June 1989, a similar direction was given by the Ministers of the Treasury Board to form an interdepartmental committee to report on the co-ordination of immigration activities, the allocation and deployment of resources for the achievement of immigration targets, emerging immigration issues, and the constraints and demands on the program's resources. At the same time, Treasury Board directed other departments and agencies involved to co-operate and to supply the necessary information to EIC. At the time of our audit, no action had been taken in this regard.

12.48 EIC should:

- **negotiate an interdepartmental agreement with HWC;**
- **revise existing interdepartmental agreements to ensure that the mandates, responsibilities, and accountabilities of each department and agency involved in the Immigration Program are clearly defined;**
- **consolidate its leadership and co-ordination role by establishing an infrastructure to co-ordinate plans, manage the program, review performance, and resolve problems as they arise.**

Management's response: *EIC has undertaken, in close consultation with HWC, a review of the medical admissibility policies of the Immigration Program. With the results of the review, EIC will be in a better position to determine whether a formal agreement with HWC is necessary and what it should contain.*

The agreement with Customs and Excise is being reviewed. That with CSIS will be addressed in the course of a review of the security and criminality risk management system. The outstanding items in the agreement with DEA will be addressed in the near future.

In the past, EIC has achieved co-ordination of the program activities through a range of formal and informal arrangements tailored to the role of the department or agency in the program. Among mechanisms used are annual interdepartmental meetings with all departments and agencies involved, issue-specific expert working groups, and meetings convened to review performance and resolve problems. In addition to these activities and to putting in place an interdepartmental infrastructure, we will review the types of relationships which exist with the other departments and agencies and, where the purpose warrants it, proceed to structure them on a more rigorous basis.

Management of Immigration Levels

12.49 The Immigration Act requires that the Minister annually lay before Parliament a report specifying the number of immigrants that the Government of Canada deems appropriate to admit during a specified period of time. In addition, the report is to include the manner in which demographic considerations have been taken into account. In the process of determining the number, the Minister of Employment and Immigration consults with the provinces and invites over 800 national and regional organizations to submit their views. In the "Annual Report to Parliament on Future Immigration Levels", the level is expressed as a range, not as a precise number, and is broken down by immigration classes, such as family and independent immigrants.

12.50 When the Immigration Act was tabled in Parliament in 1976, the Minister of Employment and Immigration explained that the levels were a means of regulating the number of immigrants. Previously, the number of immigrant landings had been determined by the number of qualified immigrants. The consultations on the levels were to help define Canada's needs and capacity to receive immigrants. Levels were also intended to guide the allocation of resources to and within different components of the Immigration Program. Thus, the immigration levels established by the Government and reported to Parliament are crucial for the management of the program.

12.51 Based on their interdepartmental agreement, EIC delegates to DEA the responsibility for meeting a portion of the overall immigration level. Out of an announced range of 150,000 to 160,000 for 1989, DEA agreed to deliver 135,000 landings of immigrants selected abroad, which represent 84 to 90 percent of the overall level.

12.52 We expected that the actual number of immigrant landings would not significantly deviate from the announced range, given that the levels are based on demographic and other considerations, that they represent a broad consensus reached through extensive consultations, and that they have received the approval of the Government of Canada.

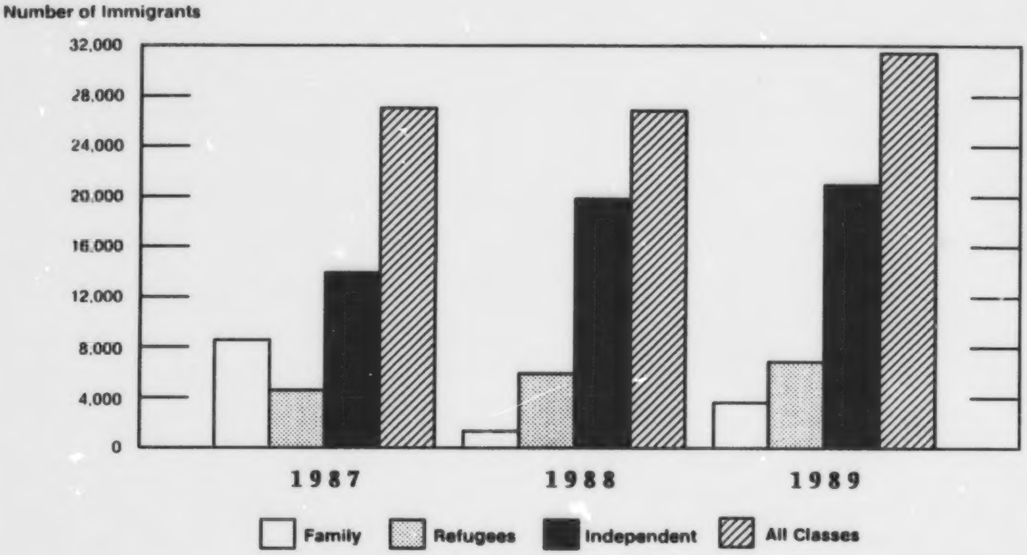
Planned immigration levels have been significantly exceeded for the last three years

12.53 We noted that for the last three years, the number of immigrant landings in Canada exceeded the higher end of the announced range by 27,000 to 31,500 (or 20 to 22 percent), as shown in Exhibit 12.2 The independent class accounted for 51 to 67 percent of the excess. The greatest part of this excess was the result of an increase in the number of accompanying dependents. The family class, however, was very close to the planned level, especially in the last two years.

12.54 As reported in Chapter 13, the overall levels were exceeded mainly because of an overprocessing of immigrant applications abroad (see paragraph 13.28). While we identify in that chapter various factors that have led to these levels being exceeded and stress the need for more effective management procedures at DEA (see paragraphs 13.30 to 13.35), EIC has the responsibility for managing immigration levels and therefore should monitor adherence.

Exhibit 12.2

NUMBER OF IMMIGRANTS EXCEEDING PLAN



***SOURCE**: Employment and Immigration Canada*

> *Immigration levels, intended as a means of regulating the number of immigrants, have been significantly exceeded for the last three years.*

12.55 In fact, this situation may be partly explained by the ambiguity of the purpose of the level, which EIC has defined by what it is not rather than what it is: "...not a target, quota, or ceiling, but rather a planning range." Nowhere has the term "planning range" been explicitly defined in terms of operations. EIC has not conveyed formally to DEA its expectations regarding the number of landings from abroad or the acceptability of surpassing its assigned level.

12.56 There is an impact on settlement services when the number of immigrants admitted is substantially larger than planned. Provinces, municipalities, school boards, and voluntary agencies regularly point out problems related to additional demand for settlement services such as health, housing, schools, language courses, and occupational training.

12.57 Although we realize the difficulty and complexity of establishing levels that must consider labour, economic, social, and humanitarian factors, as well as the categories of immigrants, we believe that the level determination process is a key element in the management of the program. EIC has undertaken the preparation of a medium-term plan (1991-1995) to establish the number of immigrants Canada should receive. To this effect, it is important that the purpose of the levels be clarified. We realize that defining the purpose of the levels could result in difficulties for management. Hard choices may have to be made if maximum levels are achieved prior to year-end. We believe such choices must be made. If levels are to be surpassed in a given year, the government should approve the excess or delegate such approval to the Minister, and should account for it to Parliament.

12.58 Given the importance of the Cabinet-approved immigration levels to the management of the Program, and of their effect on resourcing, we reiterate the need to clarify the term immigration level and to explain its purpose. This should provide a basis to demonstrate adherence to the intent of the Act, as well as a means of ensuring accountability for program performance.

12.59 EIC should:

- **clarify the purpose of the annual immigration level announced to Parliament;**
- **give specific direction to DEA regarding adherence to the delegated level and approve any significant deviations.**

Management's response: *EIC acknowledges some ambiguity surrounding annual immigration levels. An attempt will be made to deal with this in the 5-year plan. There is a range of measures to consider in bringing immigration levels' final results in line with announcements. Specific directions to posts abroad are currently used. Improvements in that area and other measures are being actively considered.*

Training of Personnel with Immigration Responsibilities

12.60 The quasi-judicial nature of the Immigration Program and the discretionary authority exercised by immigration officers and managers are well recognized. Since most of the decision-making is based on the judgment of personnel, it is important to ensure consistency in these decisions. Operational training can help personnel achieve this consistency, although it cannot ensure it. Operational training is also essential to impart to personnel the unique and highly specialized knowledge necessary to fulfil their job requirements.

12.61 In our review of operational training for immigration activities in all departments and agencies except CSIS, we expected to find training programs that met the specific requirements of the Immigration Program, systematic and adequate training of newly appointed personnel, and clearly established training responsibilities.

There is no assurance that all personnel with immigration responsibilities possess the knowledge and skills necessary to discharge their duties.

Some personnel with immigration responsibilities are not adequately trained

12.62 We found that operational immigration training programs and courses exist for personnel assigned to selection, control, enforcement and refugee claims processing activities, and that significant resources have been allocated to them. In most departments and agencies, however, no formal evaluation, or validation procedures are carried out for immigration training activities and reporting on these activities is limited. Consequently, management cannot ascertain whether this training meets the requirements of the Immigration Program effectively. We also noted that training provided to newly appointed personnel with immigration responsibilities varied between departments and agencies and between groups of employees within the same entity, in terms of percentage of trained employees and quality of training provided.

12.63 There is, therefore, no assurance that all personnel with immigration responsibilities possess the knowledge and skills necessary to discharge their duties.

12.64 In DEA, all new foreign service officers assigned to immigration systematically receive formal basic immigration training before being posted abroad as visa officers. In addition, DEA offers training courses to other personnel involved in immigration activities. We observed, as of March 1990, that 35 of the 104 locally engaged program (LEP) staff in missions abroad did not receive the course developed for them by DEA or any other formal operational training. We were informed by DEA that all but four of LEP staff with signing authority had, however, been trained at that date. Canadian medical officers posted abroad do receive orientation training from HWC upon appointment, but it is not documented and thus cannot be assessed.

12.65 As reported in Chapter 15, we found that the local training provided to most customs officers is limited and does not follow any consistent standard (see paragraphs 15.31 to 15.35).

12.66 The RCMP offers a specialized immigration course for personnel assigned to immigration-related duties. The target population for this course is members with a minimum of about six months to a maximum of two years on-the-job experience in the Immigration and Passport Program. We found that 25 percent of the officers assigned to this program and who form part of the target population, had not taken the course because, according to the RCMP, of budgetary constraints. However, it is common practice at the RCMP to have new officers assigned to this program work with more experienced personnel.

12.67 Although significant improvements have been made by EIC to operational training in the last three years, we have observed some deficiencies in these activities. EIC training varies from one group of employees to another, and from one Canada Immigration Centre to another. For example, it has generally been the practice not to offer centralized immigration training to term employees, even though most of them assume the same duties as permanent employees and, in some cases, they constitute a significant proportion of immigration personnel. For instance, they represent 33 percent of the 87 examining officers at ports of entry in the three major regions. As reported in Chapter 14, the training provided by EIC to case-presenting officers was found inadequate (see paragraph 14.68). We also noted that EIC has not provided any formal training alternative for employees who cannot attend centralized immigration training courses. Their training is left to local initiatives and is not consistent with centralized training.

12.68 As reported in Chapter 14, training given to IRB personnel and to adjudicators was found satisfactory.

Training responsibilities are not clearly established.

Responsibilities for training are not clear

12.69 In view of EIC's overall responsibility for the Immigration Program and the decentralization of the program delivery among many entities, it is important that respective training responsibilities be clearly established. Of all its interdepartmental agreements, EIC's agreement with Customs is the only one that addresses training. This agreement gives EIC responsibility for designing immigration training courses and instructing customs officers.

12.70 EIC should:

- **define in interdepartmental agreements the respective responsibilities of all departments and agencies involved in the delivery of the Immigration Program, including itself, for the operational training of their immigration personnel;**
- **establish monitoring mechanisms, internally and with other departments and agencies, to ensure that all personnel with immigration responsibilities are**

adequately trained, and that training activities are evaluated.

Management's response: *Roles and responsibilities for training are defined in a Memorandum of Understanding between EIC and Customs for customs officers with immigration responsibilities. EIC has contributed to the training of Foreign Service officers of External Affairs on an ongoing basis since the consolidation of the Foreign Service in 1981. Arrangements with other departments are more informal. These informal arrangements will be reviewed to determine if training roles and responsibilities can be better defined and incorporated by more formal means.*

Immigration established a National Training Centre in the Fall of 1989 to ensure consistent centralized operational training to EIC immigration personnel. With the creation of this centralized training, new national training strategies and policies are being developed. A national training needs identification system is also being developed to monitor EIC immigration training. Existing internal evaluation mechanisms are being reviewed and expanded. Monitoring and evaluation responsibilities will be reviewed with other departments.

Immigration Cost Recovery

12.71 The Canadian Immigration Program is characterized by a low level of cost recovery. We recognize that many immigration activities deal with humanitarian, judicial and enforcement processes that do not lend themselves to cost recovery. However, many other services are provided for which cost recovery would be feasible and advisable. Immigration fees were first introduced in 1986 for permanent residence applications, extensions of visitors status, employment authorizations, and verification of landing records. In 1989/90, immigration fees generated revenues of about $30 million. This figure represents only a small proportion of the cost of providing immigration services.

12.72 The government policy on external user charges suggests that user fees promote equity by shifting the burden of paying for government services from taxpayers in general to identifiable users receiving specific benefits from these services.

12.73 Since this principle applies to many immigration services, it is important for EIC to know the costs of providing specific immigration services and to have a comprehensive cost-recovery policy. Cost-recoverable services need to be identified and fees set in a way that users of immigration services pay their fair share of the costs, taking into account program objectives.

Cost recovery for immigration services is increasing

12.74 EIC, in collaboration with DEA, has made significant efforts during the last two years to enhance its cost-recovery program. A special study was conducted to review unit costs for services that were already on cost recovery and to develop unit costs for other services. The study confirmed that costs were well above fees being charged.

12.75 Following this study, EIC developed a three-phase strategy for changes to its cost-recovery program. The revised strategy provided for immediate increases in some of the existing fees and a gradual increase in the number of services for which fees are charged. On 1 April 1990, fees for permanent resident applications were increased from $125 to $250 for all categories of immigrants, except for the business category, which was increased from $125 to $500, and fees for employment authorizations which went from $50 to $75. These changes will bring revenues to an estimated $52 million for 1990/91.

12.76 EIC, however, has not determined which proportion of costs should be recovered from users. As indicated in Exhibit 12.3, the revised fees for some services are still significantly below their costs. Moreover, costs associated with the direct involvement of the RCMP, CSIS, HWC and Customs are not included in these figures.

Exhibit 12.3

USER FEES AND COSTS FOR RECOVERABLE IMMIGRATION SERVICES

	CURRENT FEE $	ESTIMATED UNIT COST $
Application for Permanent Residence: (per family unit)		
Business Class	500	1,525
All Other Classes	250*	800-1,160
Employment Authorization and Extension	75-150	160-560
Extension of Visitor Status	50	55
Verification of Landing	25-50	35-170

** Refugee and designated class applications are free of charge.*

SOURCE: *Employment and Immigration Canada*

12.77 EIC considers that immigration user fees should not interfere with participation in the program or its objectives and that the client's capacity to pay is the key factor in determining fees. However, we found that EIC did not make any systematic assessment of immigrant or visitor capacity to pay prior to revising fees in April 1990. For example, given the inherent nature of the Business Immigration Program, we believe that business immigrants, such as entrepreneurs and investors, have the capacity to pay considerably more than the fees currently charged.

12.78 We also noticed that other countries charge more for similar services. For example, Canadian immigration fees are charged per application, no matter how many persons are included on the form. The United States levies separate fees for each person included in a case. Thus, a family of four migrating to the United States would pay a fee of $720 for the four visas required. For Canada, the same family would pay $250.

User charges could be imposed on a broader range of immigration services

12.79 In the 1989 strategy, EIC and DEA identified 13 additional immigration services for which costing studies had been done and user charges could be introduced. For example, Canada is one of the few countries not charging fees for student authorizations and visitor visas. EIC estimated the annual revenue potential from these services to be in the order of $20 million. At the time of our audit, EIC and DEA were conducting detailed analyses of each item and holding consultations with interested third parties.

A higher proportion of immigration costs can be recovered.

12.80 EIC and DEA have identified other areas where fees could be imposed, but costing studies still have to be done and potential revenue has to be estimated.

12.81 At the time of our audit, EIC and DEA were negotiating with Treasury Board to obtain a share of the additional revenue to be collected through user fees. These funds would be used to support future productivity and quality of service improvement initiatives. Given that estimated potential revenue amounts to over $1.5 million a month, it is important that the matter be resolved as quickly as possible.

12.82 EIC should continue its efforts in cost-recovery activities, including:

- **clarifying the basis on which fees should be set;**
- **periodically reviewing costs of providing immigration services and related fees.**

Management's response: *EIC will re-examine the basis on which fees should be set in order to clarify fee application.*

EIC, with the use of existing cost analysis provided by Government Consulting Group (formerly known as the Bureau of Management Consulting), will conduct ongoing review of the costs of providing immigration services and related fees.

Program Evaluation

Important program components have not been evaluated

12.83 The Office of the Comptroller General has established a policy for evaluating the effectiveness of government programs. In accordance with that policy, departments are expected to evaluate all their programs within a certain period of time.

12.84 We found that there were significant gaps in the evaluation of immigration policies and programs.

12.85 In 1983, EIC produced three good-quality pre-evaluation assessments of Immigration Program components, exploring a wide range of issues. However, because no resources were fully dedicated to the task of evaluating immigration policies and program components, a limited number of evaluations resulted from these assessments. Some studies done for policy development purposes attempted to measure effectiveness, but they did not compensate for the absence of program evaluations.

12.86 We noted that such major program components as selected workers, family class, and designated classes have never been subject to formal program evaluations. It is still not known, for example, if the criteria applicable to these immigrant classes are appropriate. EIC has nonetheless made important changes to those components in recent years.

12.87 Other departments and agencies are involved in the development of policies on health, safety, and security, but EIC has the final word on each immigrant case. We found that departments and agencies are not clear as to who has the responsibility for evaluating the effectiveness of these policies. No information on their effectiveness is currently available. In Chapter 15, we point out the importance of evaluating the effectiveness of security activities.

12.88 EIC should:

- **clarify, with other departments and agencies, respective responsibilities for evaluating immigration policies and program components;**
- **evaluate the policies and program components for which it has the primary responsibility;**
- **co-ordinate its evaluations with those of the other departments and agencies concerned when responsibilities are shared.**

Management's response: *EIC has the primary responsibility for evaluating immigration policies and programs components. A formal agreement exists with External Affairs defining clearly that all program evaluation as it relates to the attainment of prescribed program, policy objectives and conformity to design criteria as* *well as design and conduct of immigration program evaluation and public surveys of program effect are the primary responsibilities of EIC. EIC will work towards developing similar formal agreements with other departments and agencies to codify existing working arrangements for evaluating immigration policies and program components.*

EIC will evaluate immigration policies and program components for which it has the primary responsibility.

Although some co-ordination has taken place, EIC will undertake to expand its co-ordinating role with those of the other departments and agencies concerned when evaluation responsibilities are shared.

Information to Parliament

Information to Parliament is incomplete and fragmented

12.89 Six of the seven departments and agencies involved in the Immigration Program submit to Parliament their own Estimates Part IIIs. CSIS is exempt from producing a Part III document. We reviewed these Part IIIs to determine whether collectively they provided complete, relevant and understandable information on the Immigration Program and its activities and whether program performance was clearly presented and accounted for.

12.90 We found that the information contained in these documents provided an incomplete picture of the Immigration Program. The information was not structured in a meaningful way, and there were no clear links between resources, activities, and results.

12.91 Information on immigration costs is incomplete. For example, immigration costs disclosed in Part IIIs for 1988/89 amounted to $230 million. We estimate that the actual cost of the Immigration Program, however, was at least $100 million higher. This discrepancy arises from the fact that the costs of immigration services provided by Customs and the RCMP are not disclosed in their own Part IIIs, and DEA immigration costs are only partially disclosed. Only EIC, HWC and the IRB provide reasonably complete information on their costs.

12.92 The immigration section in EIC's Part III is difficult to understand, because it is not structured according to immigration activities, such as selection, control, enforcement, and settlement, but rather presents a mixture of activities and management functions.

Information to Parliament on the Immigration Program is incomplete and fragmented.

12.93 Furthermore, resources and results are not tied to Immigration Program activities. For example, resources required for selection of immigrants or enforcement of the Act are not presented separately, but are consolidated with other activities under the heading "Program Operations". Also, the attainment of announced immigration levels, globally and by component, is attributed to the Policy Development sub-activity, which only determines the levels. The activities required to meet these levels are carried out by other EIC branches and DEA.

12.94 The Part IIIs do not present norms or standards for assessing the performance of specific operations, such as processing immigrant visa applications abroad or sponsorship applications in Canada. Therefore, it is difficult to determine whether departmental operations are efficient and whether resources allocated to program activities are in line with expected results. The Part IIIs emphasize the amount of work done as opposed to the efficiency and effectiveness of that work.

12.95 In our view, the information presented in each of the Part IIIs does not meet the government policy on disclosure. That policy states that Part IIIs shall "provide sufficient information to assist Members of Parliament in understanding and assessing planned and actual program performance, in terms of results and related resources." The above weaknesses parallel closely those identified in our chapter on information to Parliament in our 1988 annual report.

12.96 In general, we believe that the information on the entire Immigration Program could be summarized and presented better in EIC's Part III. For example, EIC could provide a listing of the various activities that make up the Immigration Program of the federal government. Also, its Part III could contain cross-references to other Part IIIs and to other public documents that Members of Parliament might use to give them a complete picture of Canada's Immigration Program. An example that begins to move in the right direction is the Canadian International Development Agency's attempt to give an overall financial picture of Official Development Assistance by including in its Part III the planned expenditures for the entire sector, including activities outside its jurisdiction.

12.97 In Part III of its Estimates, EIC should, in consultation with the Office of the Comptroller General:

- **structure its presentation of the Immigration Program according to its main activities and link them with resources, results, and performance;**
- **present sectoral information on the overall Immigration Program and make reference to other departments' Part IIIs where appropriate.**

Management's response: *The Immigration program has undergone a new structure which will provide Parliament with the tools to evaluate the efficiency and effectiveness of the program more realistically. This structure will be reflected in EIC's 1991 92 Part III as approval of the Operational Planning Framework is anticipated prior to the termination of the 1991-94 Multi-Year Operational Plan exercise. This new structure will link resources, results and performance to Main Activities.*

The responsibility for co-ordination among the departments and presentation of overall information rests with the Office of the Comptroller General (OCG). The Auditor General's suggestion of presenting information on a sectoral basis will be discussed with the OCG.

13

Immigration

Foreign Delivery

Immigration

Foreign Delivery

Main Points

13.1 The Department of External Affairs (DEA) processes immigrant and visitor visa applications abroad. Employment and Immigration Canada, in consultation with DEA, determines the total number of immigrants to be processed abroad. In 1989, DEA issued 187,000 immigrant visas and 599,000 visitor visas (paragraphs 13.8 to 13.11).

13.2 Although DEA's visa officers and staff endeavour to provide immigration services to prospective immigrants and visitors in a dedicated way, the efficiency and operational effectiveness of the foreign delivery system need improvement in four areas.

13.3 **Exceeding targets.** Substantially more immigrant visa applications than are needed to meet the planned immigration target are being processed at missions abroad. This has for the third year in a row resulted in significantly exceeding the overall immigration level announced in Parliament. As such, the extensive consultation process within Canada for establishing this level of immigration is brought into question (13.26 to 13.36).

13.4 **Service to visa applicants.** The length of time it takes to arrive at a decision to grant or refuse an immigrant visa varies significantly year after year and from mission to mission. This raises the question of consistency in service provided to applicants (13.37 to 13.48).

13.5 **Efficiency norms needed for resource allocation.** The amount of immigration staff time used to process visa applications varies so widely among missions that the Department does not have reasonable assurance that the number and location of visa officers posted abroad is appropriate (13.37 to 13.48).

13.6 **Opportunities for improving use of resources at missions.** The operating efficiency of the program delivery system could be significantly improved by more automation, reduced paper burden, increased use of locally engaged program staff, a better link between the level of risk and the decision to hold or waive time-consuming interviews with applicants and more efficient medical screening procedures (13.59 to 13.89).

13.7 **Overall conclusion.** DEA could maintain the 1989 target level of applications with fewer resources assigned to immigrant processing. Alternatively, a greater number of visas from abroad could be achieved with the existing level of resources devoted to visa processing at missions.

Table of Contents

Paragraph

Introduction 13.8

Key Activities and Resources 13.9

The Operating Environment Is Complex 13.13

Audit Scope 13.20

Observations and Recommendations

- Direction and Control from Headquarters 13.25
  - DEA's management of target levels for landings from abroad requires improvement (13.26)
  - No efficiency norms for processing applications have been established (13.37)
  - The role of Internal Audit needs to be enhanced (13.49)
- Improved Utilization of Resources and Quality of Service at Missions 13.56
  - Many missions could improve operating efficiency by increasing automation (13.59)
  - Opportunities to reduce excessive paper burden and clerical work are being missed (13.66)
  - Cost savings could be realized from an increased use of locally engaged program officers (13.72)
  - There is an imbalance between the practice of waiving interviews and the level of risk of fraud (13.76)
  - Medical screening procedures are inefficient and management controls are weak (13.82)

Exhibits

13.1 Landings of Immigrants Processed Abroad (1989)
13.2 Planning of Mission Targets (1989)
13.3 Variations with Respect to Agreed Target Level for Landings From Abroad
13.4 There Are Wide Variations in Waiting Times
13.5 Variations in Visitor Cases Processed per Program Officer by Geographic Region (1989)
13.6 Variations in Waiting Times
13.7 Paper Burden
13.8 Variations in the Ratio of Canada-Based to Local Program Officers at Selected Missions (1989)
13.9 Waiver Rates for Family-Class Interviews (1988)

Immigration

Foreign Delivery

Introduction

13.8 The Department of External Affairs (DEA) is responsible for the delivery of the Immigration Program outside Canada. It is accountable to Parliament for the efficiency of its immigration operations; it is accountable to Employment and Immigration Canada (EIC) for complying with the Immigration Act and Regulations and related policies in all matters related to visa issuance overseas and for meeting a predetermined number of landings of immigrants selected abroad.

Key Activities and Resources

13.9 The foreign delivery of the Immigration Program involves processing immigrant and visitor (foreign student, temporary worker, and tourist) visa applications. Related activities include enforcement and control through liaison with foreign authorities to intercept persons abroad who are attempting to travel to Canada with the intention of entering illegally; provision of input to EIC on its immigration policy initiatives and related procedural matters; and co-ordination of immigration policy determined by EIC with Canadian foreign policy as set by DEA.

13.10 The processing of immigrant visa applications includes four major steps: assessment of the application, interview with the applicant if necessary, medical and security screening, and issuance or refusal of a visa. Security screening is conducted by Canadian Security and Intelligence Service (CSIS) officers abroad. The processing of visitor visa applications involves most of the same steps, although in a less formal way.

13.11 In 1989, DEA offered full immigration services at 65 missions around the world (Canadian embassies, high commissions, consulates general, and consulates) and issued 186,788 immigrant visas and 599,032 visitor visas. In addition, partial immigration services for visitor visas and student authorizations were available at a further 38 missions staffed by consular officers. That same year Canada admitted as immigrants 169,959 people whose applications had been processed abroad, compared to a target level of 135,000. (Exhibit 13.1)

In 1989, DEA offered full immigration services at 65 missions around the world and issued 186,788 immigrant visas and 599,032 visitor visas.

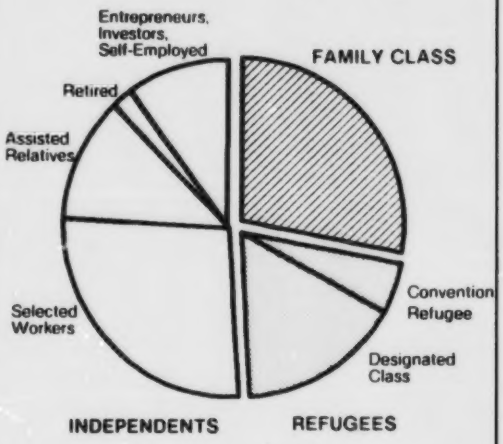
13.12 Total costs of the foreign delivery system were estimated by DEA at $137 million. Program delivery required 52 staff at headquarters and 857 staff at missions' visa sections, of which 215 were Canada-based program officers, 108 locally engaged program officers, and 534 local support staff. DEA estimates that, of its immigration resources located at full service missions, processing of immigrant visas required about 53 percent, visitor visas 31 percent, and non-processing activities such as enforcement and control, program management, and others required the remaining 16 percent.

The Operating Environment Is Complex

13.13 **Other organizations are involved.** In processing visa applications, DEA interacts

Exhibit 13.1

LANDINGS OF IMMIGRANTS PROCESSED ABROAD (1989)



Independents represent 51 percent of the total number of landings of immigrants processed abroad.

mainly with three organizations. It implements policies and procedures set out by EIC and deals with the Department of National Health and Welfare (HWC) and CSIS for the health and security screening of visa applicants at missions abroad. Memoranda of Understanding between DEA and each of these organizations outline their various responsibilities.

13.14 Migration is escalating. It is generally believed that there are an estimated 80 million people on the move in the world today, most of whom are seeking refugee status or enhanced economic opportunity. Therefore, Canada, along with Australia, the United States, and other nations with a large inflow of immigrants, faces increasing pressures to accept more immigrants. Consequently, many Canadian missions must handle a continually growing workload. Furthermore, natural disasters, sudden political or economic instability, armed conflicts or political repression can, without warning, rapidly change the workload and resource requirements of missions' visa sections.

13.15 Profile of caseload varies from mission to mission. New Delhi, for example, processes primarily family-class immigrants; Rome processes mainly refugees. Hong Kong processes a high proportion of selected workers and entrepreneurs, while Warsaw processes chiefly visitor applications.

13.16 Processing steps are similar whether the mission is located in Asia, South America or Europe. However, pressures vary. Many missions experience high volumes; some face a high incidence of fraudulent documentation; others are subject to numerous "representations" from immigrant sponsors in Canada, lawyers and counsellors, Members of Parliament, and senior government officials of host countries, all requesting information about the status of specific cases. On the other hand, some missions experience lower volumes and less pressure in their processing routines.

13.17 The number, size, and location of missions affect the efficiency of delivery. The decision to open or close a mission or change the number of missions providing full immigration services is often political, and cost or convenience to clients are not the only factors in such a decision. Immigration operations in DEA must compete for resources with other departmental priorities, such as Canada's foreign policy and international trade relations. Missions are usually located in the capitals of host countries, which may not be in proximity to major pools of potential immigrants and visitors. Low-volume missions do not benefit from economies of scale to the same degree as large-volume ones.

13.18 The selection system is increasingly complex. Many changes have occurred in the selection system over the last 20 years: immigrants must now apply from outside Canada; new categories of immigrants such as investors and retirees have been created; visitor visa requirements have been imposed on many countries; and new selection procedures for specific groups such as foreign domestics have been introduced.

13.19 **The selection system is affected by human rights issues.** As a result of the introduction of the Canadian Charter of Rights and Freedoms in 1982, the approach to selection abroad is moving away from reliance on the visa officer's assessment of the immigrant's ability to adapt to Canada toward a more legalistic application of specific selection criteria stated in the Immigration Act and Regulations. Many refusals by visa officers are being appealed to the Immigration and Refugee Board (IRB), the Federal Court, and other bodies dealing with rights issues. Consequently, there is an increasing awareness at DEA that immigration staff must be kept well informed of the changes in the legal environment in Canada, and that visa officers' decisions at missions abroad must be fully documented and justified. This has an impact on processing efficiency.

Audit Scope

Our audit focussed on the way the Department of External Affairs manages the efficiency and operational effectiveness of the foreign delivery system at both headquarters and the missions.

13.20 Our audit focussed on the way the Department of External Affairs manages the efficiency and operational effectiveness of the foreign delivery system, from the perspective of both headquarters and the missions. This includes the examination of opportunities for improving resource utilization without sacrificing quality of service or for enhancing the quality of service without significantly increasing costs, while maintaining compliance with the Immigration Act and Regulations.

13.21 Firstly, we examined the management processes used by headquarters to plan, control, and monitor foreign operations, including the justification, allocation, and use of resources, and the monitoring of compliance with the Act. Secondly, we reviewed immigration operations at a number of missions, including medical screening conducted by departmental medical officers, in order to identify system-wide opportunities for reducing costs or/and improving service.

13.22 We reviewed internal audits of the management of immigration operations both at headquarters and at missions, particularly in the area of visa processing procedures and compliance with the Immigration Act and Regulations. We were unable to rely on any work done by the Program Evaluation Division of the Department, because it had not studied the operational effectiveness of foreign immigration activities in recent years.

13.23 We also reviewed actions taken by DEA in response to recommendations of the 1986 Report of the House of Commons Standing Committee on Labour, Employment and Immigration, as these pertained to foreign delivery of the Immigration Program.

13.24 Audit criteria were discussed with DEA senior management during the course of the audit and are reflected, as relevant, in each section of this chapter.

Observations and Recommendations

Direction and Control from Headquarters

13.25 DEA headquarters provides direction to the management of immigration delivery abroad and is responsible for allocating immigration resources to missions. It also is responsible for monitoring the efficiency of missions, assigning realistic efficiency norms, detecting costly and unnecessary activities, and, where appropriate, providing EIC with information to make amendments to policies and procedures that are outside DEA's control.

The Department of External Affairs headquarters needs to improve management of target levels for landings from abroad and to develop mission-specific efficiency norms for allocation of resources and better monitoring of mission operations.

DEA's management of target levels for landings from abroad requires improvement

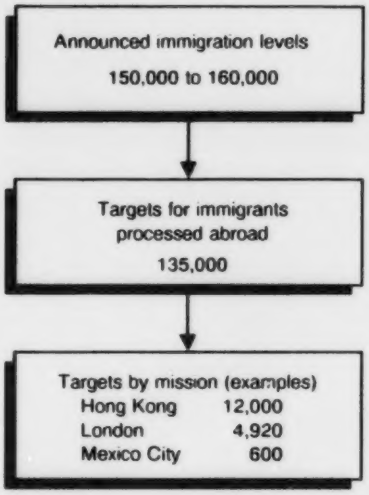
13.26 The Immigration Act requires that the government establish immigration levels for a given period. These are announced each fall by the Minister of Employment and Immigration. Based on their Memorandum of Understanding, EIC delegates to DEA the responsibility for meeting a portion of the overall immigration level. In 1989, the Secretary of State for External Affairs agreed to deliver 135,000 landings of immigrants selected overseas. DEA headquarters then translated this target level into an operational target for each mission. (Exhibit 13.2)

13.27 We expected headquarters to have developed effective management procedures for ensuring that the total number of immigrants processed abroad did not deviate significantly from the target level. Such procedures are critical, since an important aspect of DEA's accountability to EIC rests upon meeting this mutually agreed number in a satisfactory manner.

13.28 Substantially more applications than are needed to meet the planned immigration target level are being processed at many missions. This has for the third year in a row resulted in significantly exceeding the planned immigration level announced in Parliament.

Exhibit 13.2

PLANNING OF MISSION TARGETS (1989)

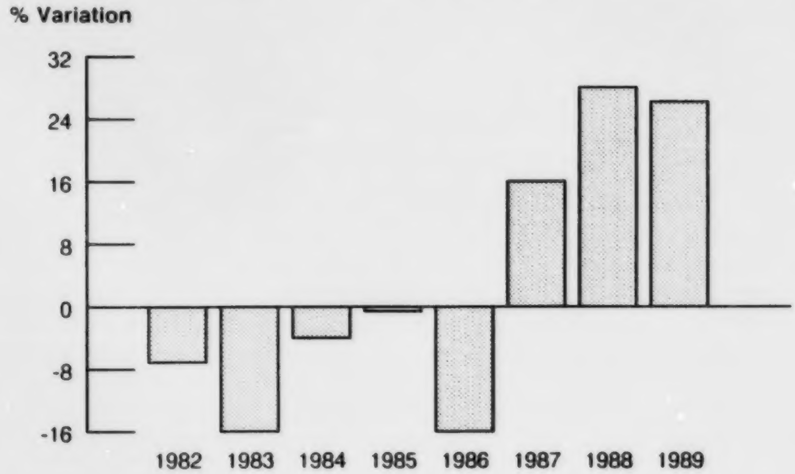

Announced immigration levels
150,000 to 160,000
Targets for immigrants processed abroad
135,000
Targets by mission (examples)
Hong Kong 12,000
London 4,920
Mexico City 600

In 1989, 47 out of 65 missions, or 72 percent, deviated from their assigned immigration targets by more than 10 percent.

13.29 For the last three years, DEA has significantly exceeded its target level for landings of immigrants selected abroad -- in 1987 by 16 percent, in 1988 by 28 percent, and again in 1989 by 26 percent. (Exhibit 13.3) In 1989, 47 out of 65 missions, or 72 percent, deviated from their assigned targets by more than 10 percent. This is in stark contrast to the management of the quota established for refugees and members of designated classes sponsored by the government and processed overseas. Actual landings for these categories

Exhibit 13.3

VARIATIONS WITH RESPECT TO AGREED TARGET LEVEL FOR LANDINGS FROM ABROAD



During the last three years, the foreign delivery system has been processing more immigrant applications than needed to meet the planned target level of landings from overseas.

were within five percent of the quota in each of the last five years.

13.30 Substantial deviations from the target level have resulted in actual landings being significantly in excess of the annual level announced to Parliament. This brings into question the extensive consultation process between EIC and numerous public and private organizations on the determination of the annual level of immigration. Significant variations from the planned number of immigrants to be selected abroad also affect programs of other levels of government and of public and private agencies that help immigrants settle in Canada.

13.31 The extent of variations from the target may be due to a number of factors. Firstly, the overall target level is low in relation to the number of people around the world eligible for a visa based on the selection system. This factor puts pressure on missions to process more applications than required.

There is no specific relationship between mission targets and potentially eligible immigrants.

13.32 Secondly, the mission target is not a specified proportion of estimated demand at the mission. No specific relationship has been established between mission targets and the number of potentially eligible immigrants in each mission as a proportion of all potentially eligible immigrants. While the target-setting process takes into account cases processed by each mission in past years, mission targets are not always sufficiently adjusted to reflect changes in EIC regulations and policies. This was the case in Islamabad, a mission with a large family-class clientele, when eligibility regulations for family-class members were expanded in July 1988 to include dependants over the age of 21. The Department informed us that the overall projection provided by EIC considerably underestimated the actual impact of this change. Also, heads of mission are not sufficiently involved in the determination of mission targets.

13.33 Thirdly, the fact that most of the missions significantly exceeded their targets means that they are over-resourced relative to their assigned targets for processing visa applications. As such, processing capacities outside Canada are greater than required to meet the overall target. Exceeding targets could also mean that missions allocate too many resources to the processing of immigrant applications and not enough to the processing of visitor applications.

13.34 Fourthly, there is no control mechanism to ensure adherence to mission targets. Nor are targets adjusted for those missions likely to exceed or fall short of their operational targets during the year. Adjusting targets in the course of the year would allow these missions to achieve optimum operating efficiency. There is no provision for a contingency reserve within the global target to allow for emergencies and unexpected events that could suddenly affect the demand at a given location. The Department informed us that it would be preferable for EIC to create such a reserve.

13.35 Fifthly, in the absence of direction from EIC or DEA headquarters regarding the acceptability of surpassing targets, Immigration Program managers have been left with the decision to manage to their target or to overshoot it. Some managers that we met prefer to exceed their targets in order to keep backlogs to a minimum, because backlogs are a prime cause for representations and responding to representations is a time-consuming activity that slows down processing at the missions. Consequently, they sometimes allocate more mission resources to processing immigrant visas and less to processing visitor visas than may be desirable. Other managers, for example in Hong Kong, consulted headquarters, and opted not to exceed their targets by more than 20 percent, even if it meant a buildup of backlogs.

13.36 In order to meet EIC's requirements for a predetermined number of landings, the Department should:

- **take into account relative demand and overall target levels when setting mission targets;**
- **involve heads of mission formally in the target-setting process;**
- **base the allocation of resources for processing immigrant visas on targets;**
- **adjust targets during the year;**
- **clarify with EIC the acceptability of over- or underfilling established targets.**

Department's response: *For 1990, the Department used the relative demand in each component of the announced immigration level to establish mission immigration targets. While heads of mission are not formally involved in the initial setting of targets, each mission is invited to comment on the target when it is initially issued. The targets, beginning in 1990, have been adjusted in response to shifting policy objectives and local developments. In addition, the 1990 targets and other immigration program workloads and objectives were used as the basis for resource allocations during the fiscal 1990/91 mission planning exercise. Finally, the Department has sought and received clarification from EIC regarding the acceptability of overfilling the level, and corresponding instructions have been communicated to missions.*

The overfilling of the announced immigration level in the past three years is primarily the cumulative effect of responses to individual situations. These include: the sharp increase in privately sponsored refugees, the Government's response to the recommendations of the Standing Committee on Labour, Employment and Immigration regarding the situation in Lebanon; the ongoing intercommunal strife in Sri Lanka; the events in

Tiananmen Square in the People's Republic of China; and, the sudden relaxation of emigration controls in Eastern Europe.

No efficiency norms for processing applications have been established

13.37 Appropriate resource allocation and efficient delivery of services overseas are critical to the success of DEA's Immigration Program. Processing delays result if visa applications exceed the number the mission can efficiently handle in a given period of time. Quality of service deteriorates. Applicants and those lobbying on their behalf increase pressure on missions. Some applicants apply for visas at missions other than where they reside, believing there is less delay elsewhere. Others jump the queue and try to enter Canada directly without proper documentation. Processing an application without giving it adequate time and due care affects the quality of decisions made by visa officers. At the same time, missions may not be making full use of their resources if visa applications are below the number they can efficiently handle. The Department states that as long as many more persons qualify to come to Canada than the immigration level calls for, shorter processing times will result in the level being exceeded by even greater numbers than at present. Alternatively, of course, shorter processing times would mean that target levels could be achieved with fewer resources, as long as these target levels are respected.

Lack of mission-specific efficiency norms makes it difficult to ensure the quality of immigration services and the appropriateness of the number and the location of visa officers around the world.

13.38 We expected headquarters to have developed mission-specific efficiency norms to guide its resource allocation decisions and to manage the efficiency of its operations. We expected to find norms for the waiting time for visa applicants at individual missions and the amount of immigration staff time normally required to process a given number of immigrant or visitor visas while maintaining compliance with the Immigration Act and Regulations. Such norms would be mission-specific and reflect local conditions, such as the need for interpreters, the level of automation at the mission, and the time applicants in that area normally take to respond to requests from the visa section.

13.39 Processing norms for efficiency are becoming a feature of the management of immigration operations of other countries, such as the United Kingdom and Australia. Work measurement and other analytical techniques could be used to develop such norms.

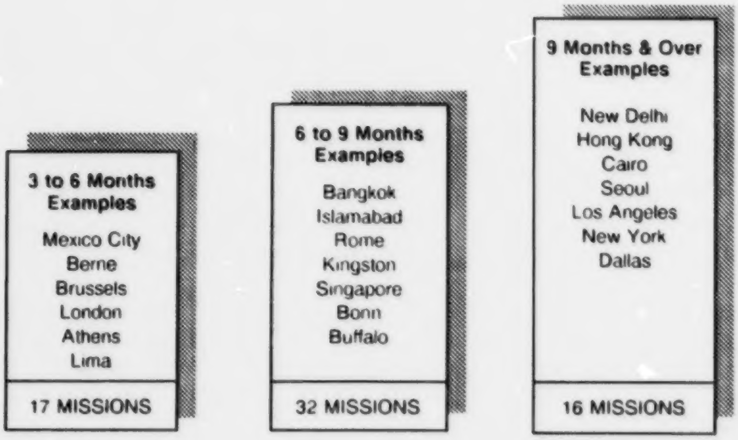
13.40 Mission-specific norms would provide meaningful indicators of the quality of service and processing volumes expected at a given mission. Mission managers and clients would then clearly know what constitutes an unacceptable delay, and headquarters could monitor performance against plan. For example, it would be easier to evaluate to what extent missions are able to respect legislative priorities in processing applicants of different categories. Corrective action could be taken on a timely basis to address any unsatisfactory situation by adding or reducing resources at the mission or by changing the number of locations where immigration services are provided. Applicants would better know what level of service to expect from the missions.

13.41 As yet, the Department has not developed any such norms, even though similar concerns were expressed by Internal Audit in 1986.

13.42 Our analysis of performance revealed significant variations between missions in both quality of service (Exhibit 13.4) and utilization of resources (Exhibit 13.5). These variations warrant further investigation, as they are difficult

Exhibit 13.4

THERE ARE WIDE VARIATIONS IN WAITING TIMES


3 to 6 Months
Examples
Mexico City
Berne
Brussels
London
Athens
Lima
17 MISSIONS
6 to 9 Months
Examples
Bangkok
Islamabad
Rome
Kingston
Singapore
Bonn
Buffalo
32 MISSIONS
9 Months & Over
Examples
New Delhi
Hong Kong
Cairo
Seoul
Los Angeles
New York
Dallas
16 MISSIONS

In 1989, an immigrant applying in Mexico would wait 114 days for a visa decision, compared to 381 days in Cairo.

to explain merely on grounds of differing local conditions.

Our analysis of performance revealed significant variations between missions in both quality of service and utilization of resources.

13.43 For example, in the area of quality of service, why does Hong Kong take an average of 381 days to process an application when London takes only 175 days? (Exhibit 13.6) Both are high-volume missions with similar automated systems for processing. It would appear that London's visa section is better resourced than Hong Kong's to meet its workload. Similarly, why does processing take 114 days in Mexico City, a relatively modest-sized mission, whereas at Dallas, which has an even smaller volume, it takes 315 days? The Department indicated to us that the difference in processing times between Mexico City and Dallas is due to delays in obtaining security clearance in the United States. Persistent variations in processing times in different parts of the world call into question the appropriateness of resource allocation and the consistency of service provided to clients.

13.44 Regarding utilization of resources, productivity levels differed significantly among missions with similar clientele that process high volumes of visitor visa applications. For example, visitor cases processed per person-year in 1989 totalled 3,061 in London compared to 5,059 in Paris, 10,137 in New York, and 16,590 in Los Angeles. This raises the question as to the proper balance at missions even within Europe and the United States between utilization of resources and degree of control over visitors. The Department views visitor visa applicants at American missions to be of a lesser risk than applicants in London and Paris, because of the American universal visa requirement (Canada is the only exception). Not all applicants are vetted through a visa requirement process prior to entry into Britain or France. Wide variations also existed in processing immigrant applications. Hong Kong and Bangkok were able to handle respectively 958 and 1,122 immigrant cases per person-year, as opposed to 463 in Minneapolis, 619 in London, and 720 in Brussels. There is no clear explanation for why Beijing could handle 780 cases whereas Bridgetown could average only 320.

13.45 One reason for the major variations in the amount of resources used in processing immigrant applications may be that there are too many missions with visa sections that have relatively low volume and are located close to each other, such as Chicago and Minneapolis in the United States, and Brussels and the Hague in Western Europe, compared to missions in Asia, where volume is high and therefore economies of scale are more likely to exist.

13.46 Another reason may be that larger missions in areas such as Western Europe have not been downsized enough, or smaller visa sections amalgamated, to reflect the shift in the main source of immigration from Europe to Asia experienced during the seventies and eighties. From an efficiency point of view, there does not appear to be a clear justification, based either on existing processing requirements or future demand for immigration, for maintaining as many as 12 immigration missions in the United States or 15 in Western Europe serving a relatively small volume of immigration applications and sometimes located in close proximity to each other or within easy reach. It is quite probable that, with proper directives and functional guidance, trained consular personnel could issue visitor visas at more missions where there is no clear need for a full-time immigration officer. A more detailed examination by DEA headquarters of each mission is necessary to determine what corrective action is required. Closer integration of the consular and immigration programs and a consequently wider assumption of consular duties by visa officers is a major objective of the Department's corporate review.

Exhibit 13.5

VARIATIONS IN VISITOR CASES PROCESSED PER PROGRAM OFFICER BY GEOGRAPHIC REGION (1989)

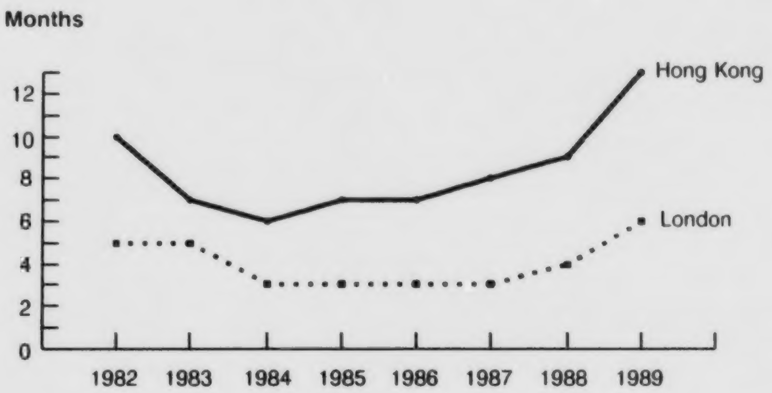
Africa	4,769
Asia	9,598
Latin America	9,080
United States	8,903
Eastern Europe	19,328
Western Europe	3,747
World	8,092

Extreme variations in productivity between regions show that some may be over-resourced relative to others and that there is a need to use norms to allocate resources.

13.47 Inappropriate resource allocation has cost implications. Staffing and other operating costs can be much higher in Western Europe

Exhibit 13.6

VARIATIONS IN WAITING TIMES



Persistent variations in waiting times call into question the appropriateness of resource allocation and the consistency in client treatment.

and the United States than in the developing world, from which the majority of immigrants come these days. Thus, the total cost of the foreign delivery system is probably higher than it needs to be.

13.48 The Department should:

- **develop mission-specific efficiency norms for both the length of time and the amount of resources necessary to process visa applications abroad;**
- **use these norms for better allocating departmental resources and for adjusting staff levels.**

Department's response: *The Department recognizes the benefits of a mission-specific resource allocation formula and has contracted a feasibility study with the Government Consulting Group. The Department also agrees on the need for mission-specific efficiency norms. The Department is not convinced that such efficiency norms should be based on the elapsed time from receipt of application to the final decision of the visa officer. In an environment in which far more people qualify to come to Canada than the Government's announced levels will accommodate, elapsed times will lengthen. The Government's announced Immigration Level, not the resources or efficiency of the mission, will become the determining factor in the elapsed time.*

The role of Internal Audit needs to be enhanced

13.49 At the missions we visited, we examined how compliance with the Immigration Act and Regulations in the application of selection criteria was being monitored by immigration managers. We found no significant weaknesses in the monitoring procedures of missions' visa sections based on limited tests we conducted and on our discussions with Internal Audit. However, we noted that the documentation maintained for immigrant cases is more extensive than that kept for visitor visas. We recognize that there are different legal requirements for visitors than for immigrants. Nevertheless, since visitors pose as much of a threat of illegal entry as other applicants, it is equally important to properly document the basis for the decision taken and to carefully carry out supervisory review.

No overall internal audit conclusions are provided to DEA or EIC to indicate whether decisions of visa officers abroad are in compliance with the Immigration Act and Regulations.

13.50 In addition to on-going monitoring of visa offices, DEA's highly decentralized immigration activity requires periodic independent verification that missions are complying with the Immigration Act and related EIC policies and procedures. DEA must provide audit information not only to its own senior management but also to both the senior management and the Minister of EIC, who has ultimate responsibility for the effectiveness of the Immigration Program. Internal Audit at DEA could provide this with periodic reports on their findings and conclusions.

13.51 We found that Internal Audit provides an extensive coverage of mission operations. A number of areas, such as control over visa forms and various administrative procedures, are well covered. In 1986, Internal Audit examined the roles and responsibilities at headquarters for policy development, monitoring of operations, management information systems, and resource allocation.

13.52 Internal Audit's potential to provide an independent report on the system for measuring and reporting on the efficiency and effectiveness of the immigration delivery system could be further enhanced by addressing the following two concerns. First, the absence of efficiency norms, as discussed in the previous section, limits the extent to which audit analysis can be developed and used to support major observations on the strengths or weaknesses that may exist in the management of efficiency, globally or at the mission level. Second, there is at present no specific EIC requirement for Internal Audit to express an audit conclusion on the extent of compliance with legislation. Internal auditors examined many individual immigration files but reported only instances of non-compliance with prescribed operating procedures. Until 1989, they did not always fully document the nature and extent of tests conducted during visits to missions. In many cases, they did not include in the report an audit conclusion on the extent of compliance at the mission. Internal Audit began in 1989 to provide DEA's Audit and Evaluation Committee with a summary of major findings, including a conclusion on the management of the efficiency of the Immigration Program.

13.53 If EIC were to request DEA to provide explicitly stated conclusions on compliance with the Immigration Act and Regulations, DEA's auditors might develop a more structured approach to scoping internal audit work and might maintain better documentation to support their findings. DEA might also arrange the automatic referral to EIC of all internal audit reports on the immigration activity.

13.54 The DEA Audit and Evaluation Committee should require Internal Audit to provide an audit conclusion on the system for measuring and reporting on the efficiency of immigration operations on a mission basis and periodically on an aggregate basis, so that the full impact of any deficiency on a system-wide basis would be made visible.

Department's response: *As stated in paragraph 13.52 the potential of Internal Audit to provide an overall conclusion will be enhanced by the introduction of efficiency norms at missions.*

13.55 DEA's Internal Audit Division should be required to provide an audit conclusion to both the departmental Audit and Evaluation Committee and to EIC on the degree of compliance with the Immigration Act and Regulations and its related policies and procedures.

***Department's response**: An overall conclusion on the degree of compliance will be provided annually.*

Improved Utilization of Resources and Quality of Service at Missions

13.56 Canada has been concerned with streamlining operating procedures and improving the quality of service at missions for a number of years. In 1985, a major study was launched by the Standing Committee on Labour, Employment and Immigration to examine problems in the area of processing family-class applications. Committee recommendations to reduce delays in this area were largely accepted by the government in 1986. Our 1989 review showed that some action had been taken to reduce delays and improve efficiency. Since 1982, immigrant visas issued have increased by 72 percent and visitor visas by 143 percent, while total staff at missions has increased by only 30 percent. However, our examination of specific processing activities at the missions we visited showed that further improvement in productivity was possible.

There are a number of opportunities to more effectively utilize resources and to shorten waiting times at missions.

13.57 As previously stated, the absence of mission-specific norms limits managers' ability to evaluate the efficiency of specific operations. Missions face varying environments. Two missions may be operating reasonably efficiently, but one may be highly automated while the other is not. Statistics on performance, therefore, cannot be the sole criterion for judging the relative operating efficiency of missions; each situation must be judged on its own merit. Our main concern is that there are too many apparently similar situations with significant variations that cannot be easily explained.

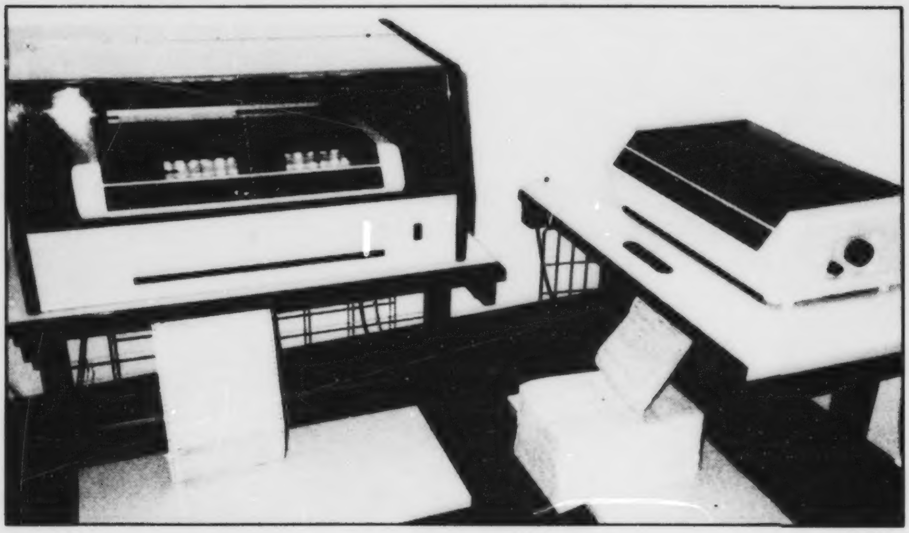
13.58 We decided to visit selected missions to determine, first, whether certain tasks involved in processing immigration applications, common to most missions, could be done more efficiently and more economically, and second, whether quality of service could be enhanced without significantly increasing the cost of operations. To do this, we observed immigration managers and staff at work and discussed operating procedures and time attached to certain tasks. We tried to minimize duplicating the work of the Department's Internal Audit Division. Then, with the assistance of managers and heads of mission concerned, we developed recommendations to remedy the problems identified during our visits. A number of areas that warrant improvement are described below.

Many missions could improve operating efficiency by increasing automation

13.59 Other countries have more advanced technologies. The Standing Committee reported in 1986 that other countries, such as the United States, had developed technology for global on-line communication between missions. While this is true, the Department informs us that the departmental automated communication system, Canadian On-line Secure Information and Communication System (COSICS), has now advanced beyond the American system.

13.60 Between 1986 and 1989, two missions, Hong Kong and London, were pilots for the introduction of the Computer Assisted Immigration Processing System (CAIPS), which provides automated processing to enhance operating efficiency and reduce processing times.

13.61 We found that some large-volume missions, such as New Delhi, Manila, and Kingston, still operate largely with antiquated manual processing systems. The resultant delays in processing lead to numerous complaints from applicants and lower the morale of staff, who must deal on a priority



Hong Kong benefits from state-of-the-art automation (see paragraph 13.60).

Large-volume visa sections, such as in New Delhi, still operate with antiquated manual processing systems (see paragraph 13.61).

basis with increasing representations without easy access to files.

13.62 We were told that, in spite of recognized improvements to the quality of service that would accrue at these missions from greater automation, higher priority is given to COSICS and the linking of the development and implementation of the two systems. CAIPS is scheduled to be introduced in tandem with COSICS at our missions in the United States in 1990. Pending an evaluation of their success in the United States, COSICS and CAIPS will be implemented in other countries over the next seven years. Nevertheless, the pilots have demonstrated that CAIPS can be implemented independently of COSICS.

13.63 Implementation of automation requires acceleration. Until June 1989, no specific budget had been approved for micro-computers for missions urgently requiring them for immigration activities. Nor was there any policy to do so. Individual efforts at some missions have allowed for automation of certain operations at a modest cost. In Islamabad and

We found that some large-volume missions, such as New Delhi, Manila, and Kingston, still operate largely with antiquated manual processing systems.

Mexico City, used or discarded micros were borrowed from other program areas for printing visas, corresponding, and keeping track of specific cases. Such initiatives are commendable. However, this situation has led many missions, such as Mexico City, Cairo, Bangkok, Manila, New Delhi, Singapore, and Dallas, to develop their own software for similar tasks. These time-consuming duplications could have been avoided if adequate co-ordination by headquarters had taken place. There is also the risk that when the "creator" or operator of a locally developed micro-computer application leaves a mission, the system may be discontinued.

13.64 The Department informed us that it now has a policy for the worldwide automation of immigration activities, as represented by the CAIPS and COSICS projects.

13.65 The Department should accelerate worldwide automation of immigration activities, particularly at high-volume missions.

***Department's response**: The Department was able to obtain incremental funding and person-years from Treasury Board in 1989. Since then an active program has been underway to equip Immigration missions with office automation equipment and applications. This program is complementary to, but is taking place in advance of CAIPS/COSICS. By the end of Fiscal Year 1990/91, 20 missions including New Delhi, Manila and Kingston, will have been so equipped, while a total of 31 will be provided with these tools within two years. The issue of installing CAIPS in advance of COSICS will be raised with the Treasury Board at the time Phase II spending authority is sought.*

Opportunities to reduce excessive paper burden and clerical work are being missed

13.66 Although the Department has engaged jointly with EIC in a number of streamlining exercises since our previous audit in 1982, more could be accomplished in expediting procedures and in reducing excessive paper burden and clerical work abroad.

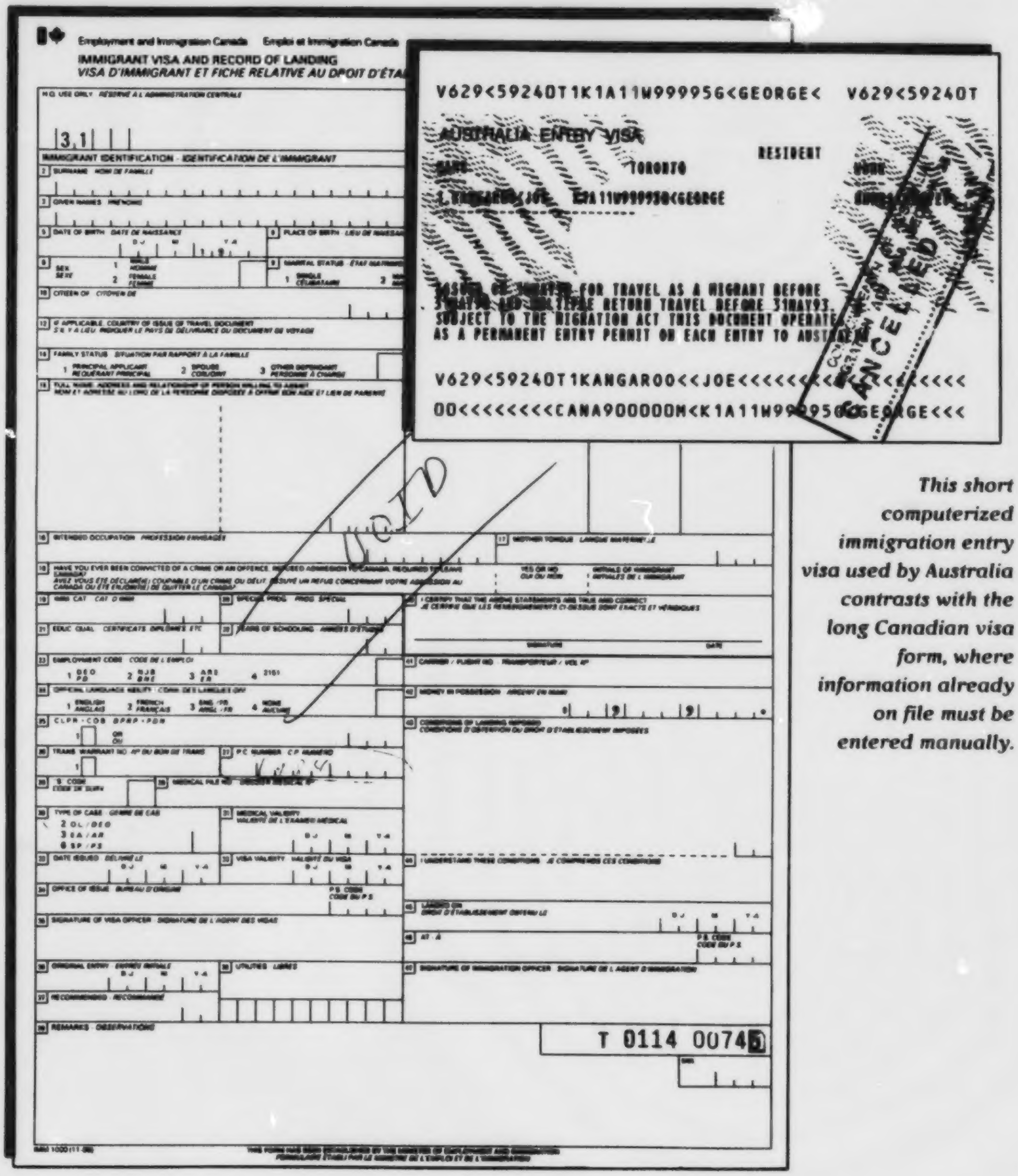
13.67 The authority for deciding which forms to use in processing visa applications belongs to EIC. The numerous forms include those for medical screening, security and criminality checks, and issuance of visas. One of the key recommendations of the Standing Committee was to consolidate a number of medical forms into one that would fit all categories of medical classifications and would be completed by the Designated Medical Practitioner (DMP). We found that this had been done. However, other areas also need to be assessed for possible reduction of paper burden.

We noted that visa forms duplicated a considerable amount of information already filed on immigrant assessment records.

13.68 In the case of the immigrant's visa form, we noted that there is considerable repetition of information already filed on the applicant's assessment records. As well, there is a separate entry authorization form for each type of visitor, which affects the amount of training provided by enforcement officers to airline personnel for purposes of document scrutiny. The use of so many different forms with so much information contrasts with the short, multi-purpose, computerized entry authorization form used by Australia. (Exhibit 13.7)

Exhibit 13.7

PAPER BURDEN



Employment and Immigration Canada Emploi et Immigration Canada

IMMIGRANT VISA AND RECORD OF LANDING

VISA D'IMMIGRANT ET FICHE RELATIVE AU DPOIT D'ÉTA

3,1

IMMIGRANT IDENTIFICATION - IDENTIFICATION DE L'IMMIGRANT

VOID

T 0114 0074

V629<59240T1K1A11W999956<GEORGE< V629<59240T

AUSTRALIA ENTRY VISA

RESIDENT

TORONTO

SUBJECT TO THE MIGRATION ACT THIS DOCUMENT OPERATES

AS A PERMANENT ENTRY PERMIT ON EACH ENTRY TO AUST

V629<59240T1KANGAROO<<JOE<<<<<<<<<<<<<<<<

00<<<<<<<<<CANA900000M<K1A11W999956<GEORGE<<<

CANCELLED

This short computerized immigration entry visa used by Australia contrasts with the long Canadian visa form, where information already on file must be entered manually.

13.69 Considerable documentation is needed to verify relationships of family-class applicants. In some countries, validation of birth, marriage, and death certificates is simple. At some missions, documentation is poor, difficult, or impossible to obtain due to political instability or the lack of accurate records. Certificates are sometimes blank, incomplete, or illegible. At many missions, family-class processing is hindered because filing and recording systems differ vastly from those of more industrialized countries. Moreover, we were told that the problem of fraud is so serious in some parts of the world that missions must devote an undue proportion of their resources to verification of documents. The Standing Committee had suggested that the Department consider statutory declarations from sponsors, churches, community leaders, or professionals as a substitute for documented "proof" at missions, under constraint of severe penalties for false affidavits. This suggestion has not been accepted by EIC. British visa staff use other methods for dealing with the risk of fraudulent documents, including specialized interviewing techniques and genetic fingerprinting to establish the validity of family relationships.

13.70 Alternatives need to be found to apply new technology, expedite procedures, and eliminate unnecessary paperwork.

13.71 **The Department, in consultation with EIC, should examine ways to streamline procedures and to simplify the use of forms and documents at missions abroad.**

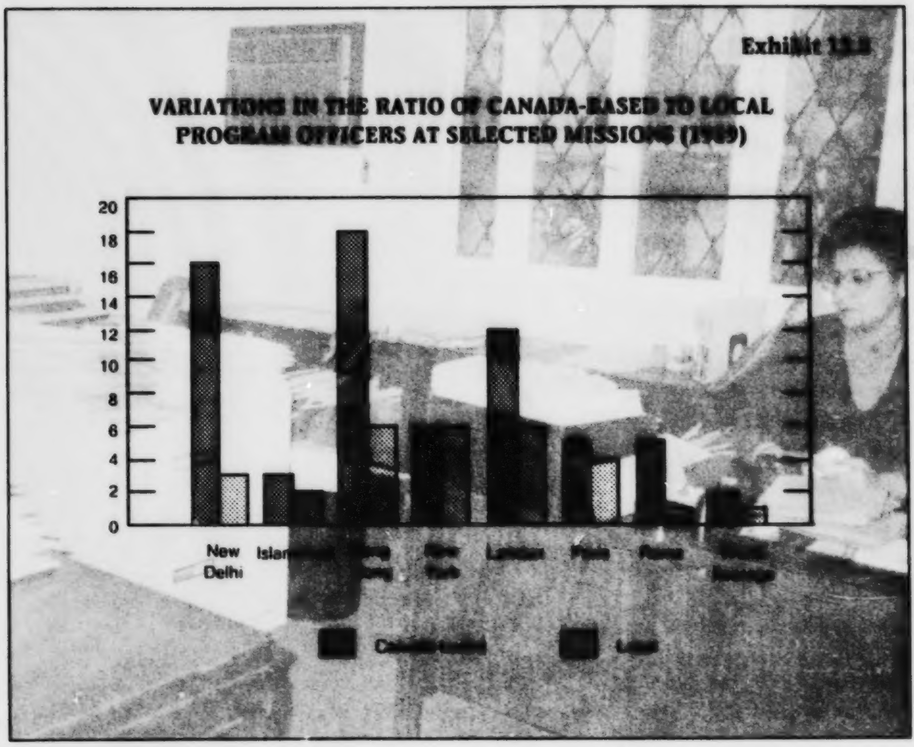
Department's response: *In principle, the Department fully agrees with the Auditor General's recommendations. All forms and the bulk of procedures utilized abroad are controlled by EIC, the Department with policy responsibility. Over the past decade numerous inter-departmental efforts at streamlining have produced some positive results. For DEA to pursue streamlining effectively, however, there would need to be greater devolution of responsibility, authority and accountability. DEA and EIC are prepared to consider future streamlining activities.*

Cost savings could be realized from an increased use of locally engaged program officers

13.72 For a number of years, the increasing use of locally engaged personnel at missions abroad has been an important feature of the Department's strategy to reduce the cost of Canada's foreign operations. Competent locally engaged program officers (LEPs) can carry out many immigration, trade, and consular activities at certain missions for approximately one fifth or less of the $250,000 annual cost of posting a Canada-based officer (CBO) overseas. As well, their knowledge of the local language, culture, and conditions can enhance the quality of service. At the missions we visited, management praised their expertise and trustworthiness in handling many routine but important and time-consuming immigration tasks such as interviewing applicants and assessing the quality of documents supporting visa applications.

Competent locally engaged program officers can carry out many immigration, trade, and consular activities at certain missions for approximately one fifth or less of the $250,000 annual cost of posting a Canada-based officer overseas.

13.73 Despite this, we noted that at several missions the number of LEPs is still relatively low. New Delhi employs five CBOs to one LEP, while Islamabad has three CBOs for every two LEPs. At both locations, immigration managers agreed that well-qualified LEPs with the right legal education and background could do most of the processing tasks more cost-effectively, as long as they are properly supervised. (Exhibit 13.8)



Exhibit

VARIATIONS IN THE RATIO OF CANADA-BASED TO LOCAL PROGRAM OFFICERS AT SELECTED MISSIONS (1989)

The number of locally engaged program officers at some missions is still relatively low; a locally engaged progam officer can carry out most immigration activities for one fifth or less of the $250,000 annual cost of posting a Canada-based officer overseas.

13.74 The Standing Committee also recommended the judicious expansion of the role of LEPs, provided they meet certain standards of education, competence, and integrity. If the Department further pursues the opportunity to selectively convert CBO positions to LEP positions at other missions abroad, as has been done over the last four years -- for example, in Bonn, Buffalo, and Cairo -- substantial savings would result and the quality of service could be improved. This would be particularly applicable for Manila and Hong Kong, where the workload is rapidly expanding, resources are tight, and qualified persons with the right language requirements are available. As well, the Department could consider hiring Canadians living in foreign capitals to perform processing duties as LEPs.

13.75 The Department should, to the extent feasible, convert more Canada-based officer positions to locally engaged program staff positions.

Department's response: *The Department agrees in principle with the recommendation and has, over the past five years, moved to a greater use of locally engaged program staff. There are, however, limitations. Unlike Canada-based staff, locally engaged staff have no consular immunity protection and are liable to civil suits, prosecution or persecution when carrying out their duties responsibly. In the absence of the Government of Canada's ability to protect such employees, the Department has a responsibility to carefully weigh the advantages of their use against the degree of personal risk involved. Finally, many of our clientele refuse to accept a negative decision from one of their own nationals.*

There is an imbalance between the practice of waiving interviews and the level of risk of fraud

13.76 The processing of visa applications requires that a personal interview be held with a prospective immigrant or visitor after the application form has been filled out and the necessary documents have been provided to the mission. This is done to establish the bonafides of an applicant, particularly in situations where the risk of misrepresentation is high. Such an interview can also play a useful role in individual counselling. However, interviews are time-consuming, and a backlog of them can delay processing by many weeks. At times, the visa officer or the applicant has to travel extensively at considerable cost to hold the interview. It is therefore cost-effective to waive interviews whenever the situation is relatively straightforward and the documentation is satisfactory, or when the inherent risk of fraud is otherwise low, as in the case of many family-class applications.

13.77 The waiver rate for interviews is presently running at 15 percent worldwide for all categories of immigrant cases; no comparable data are available for visitor cases. With average waiting times for immigrant applications increasing from 191 days in 1987 to 253 days in 1989, we examined the possibility of reducing waiting times and achieving economies at missions abroad by judiciously increasing the waiver rate.

13.78 We found two significant deficiencies. First, headquarters had not developed any clear guidelines in this matter, and each mission had developed its own practice as to waiving interviews with prospective immigrants or visitors. Second, we could not see any clear relationship between perceived risk of misrepresentation and reported incidence of waiving. Waiving practices seemed to be more linked to resources available and the degree of pressure to accelerate processing at the mission rather than to risk assessment.

The rate for waiving interviews of immigrants is greatest in areas viewed as having a high risk of fraud.

13.79 The highest interview waiver rates in immigrant cases are reported in areas viewed as high, not low, risk. For example, the waiver rate in Eastern Europe was 27 percent vs. nine percent in Western Europe. Similarly, in Asia, where the quality of documentation provided by applicants is less than satisfactory, the waiver rate averaged 19 percent with a high of 42 percent in New Delhi, where we were told the risk of fraudulent documentation is one of the highest in the world. This is in stark contrast with missions in the United States, which reported an overall rate of eight percent, with Washington and Dallas waiving only two percent. Rejection rates at locations with low waiver rates are no greater than those with high waiver rates. This phenomenon holds true when comparing waiver rates among missions for the same immigrant categories. (Exhibit 13.9)

13.80 There appears to be a clear case for developing operating guidelines for staff in order to emphasize the link between the risk of fraud and the effort of verifying identities and for looking at further economies through increased waivers, especially in Western Europe and the United States. The Department's comment is that while the increase in waiving interviews will in many

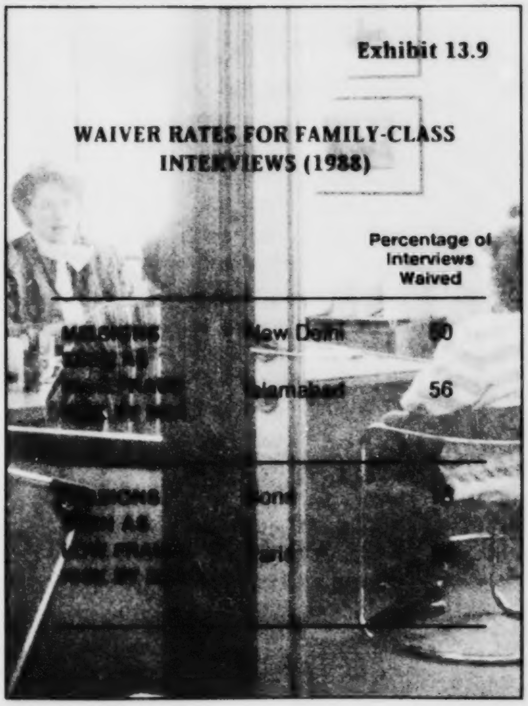


Exhibit 13.9

WAIVER RATES FOR FAMILY-CLASS INTERVIEWS (1988)

		Percentage of Interviews Waived
[illegible]	New Delhi	60
	Islamabad	56
[illegible]	London	[illegible]
	Paris	[illegible]

instances reduce processing times, it will also lead to an increase in visa output, thus aggravating the problem of exceeding the immigration level. It could also lead, as pointed out earlier, to reduced resources rather than increased output.

13.81 The Department should assess the level of fraud risk at each mission and issue guidelines to assist mission staff in determining the most appropriate balance between waiver practices and degree of risk at that mission.

Department's response: *The Department agrees there is scope for a greater waiver of interviews at many missions but it believes this is more appropriately a local management decision.*

Medical screening procedures are inefficient and management controls are weak

13.82 All prospective immigrants and certain visitors must undergo a full medical examination. The examinations are generally performed by selected local doctors called Designated Medical Practitioners (DMPs), who report their findings to Canadian medical officers for assessment. The latter, after reviewing the medical results, make recommendations to visa officers as to whether applicants are admissible, inadmissible, or need further examination, treatment, or surveillance once admitted to Canada.

13.83 In 1989, there were 16 Canadian medical officers and eight doctors on contract employed by DEA at missions abroad. They assessed the results of 280,000 medical examinations and declared 1,000 applicants inadmissible.

13.84 Canadian medical officers at missions need to improve monitoring of DMPs. In 1986, the Standing Committee found few complaints with the quality of work of DMPs. However, it felt there was an anomaly in our system in that the DMPs who actually examine the immigrants are not permitted to make any recommendation or to request further information. Instead they must refer to the Canadian medical officer who, based on file review, makes the recommendation on medical admissibility or inadmissibility.

13.85 The Committee recommended that an audit system of the DMPs be established as an important part of the revised medical processing system. The Department of Health and Welfare (HWC) and Canadian medical officers at missions were to place the emphasis on training, monitoring, and assessing the work of the DMPs.

13.86 During our 1989 visits to missions we followed up on the Committee's recommendations. The role of the Canadian medical officers at the mission had not been changed since 1985 to increase the emphasis on monitoring as recommended by the Committee. In Asia, Canadian medical officers still check 100 percent of the documentation provided by DMPs, compared to a very low percentage in some European missions. At New Delhi, we found that the Canadian medical officer had not visited many DMPs to inspect their qualifications or the operating practices employed at the clinics where they conducted the applicants' tests. In addition, there was little or no evidence supporting the designation of individual DMPs. Some files had not been updated to reflect current qualifications for 12 to 19 years. Current curriculum vitae and licences to practice were not maintained for each DMP. There was limited monitoring of the professional fees charged by DMPs or documented assessments of performance as established by HWC.

13.87 Clearly there is a need to re-examine the practices involved in checking DMP findings, such as by reducing the number of cases to be reviewed through the introduction of sampling techniques that are based on an analysis of risk. In Asia, this would eliminate unnecessary work and allow time for closer supervision of DMPs.

13.88 The question remains as to the need of medical officers abroad. Canadian medical officers also provide health services to staff and their families at missions. The

Committee noted in 1986 that a less expensive alternative for maintaining the quality of medical care should be considered. Australia, the United Kingdom, and the United States have either eliminated or sharply reduced the presence of their own doctors abroad. Posting a Canadian doctor overseas can cost up to $400,000. Canadian doctors may be necessary at missions where local health facilities are poor, but not at locations such as London, Rome, and Singapore, where facilities are quite adequate. In any case, serious illnesses are usually not treated by the medical officers at missions.

13.89 The Department, in consultation with HWC and EIC should:

- **develop a better system for monitoring the performance of DMPs;**
- **introduce risk-based sampling procedures that reduce the amount of checking done by Canadian medical officers.**

***Department's response**: The Department agrees that standard periodic assessments of DMP performance are necessary and will draft appropriate instruction in consultation with HWC. It also agrees to review the application of risk-based sampling procedures in consultation with HWC.*

14

Immigration

Refugees

Immigration

Refugees

Main Points

14.1 At the end of 1988, a backlog of some 85,000 unprocessed claims had accumulated in the refugee status determination system. Moreover, the procedures in place did not provide effective means of dealing quickly and conclusively with claims that obviously had no merit. The system was extremely prone to large-scale abuses and became overloaded by a growing number of claims that compounded existing delays (paragraphs 14.13 and 14.14).

14.2 The amendments to the Immigration Act implemented on 1 January 1989 were intended to streamline the processing of refugee claims, to continue to offer protection to those who are really threatened in their country of origin, and to deter claimants who do not need Canada's protection or whose assertions are unfounded (14.15).

14.3 Our examination revealed that some important measures aimed at controlling the misuse of the process had either not been implemented or were not operating as intended. As a result, Canada may eventually find itself in a situation similar to 1988, when the number of claims greatly surpassed the processing capacity of the system (14.32 to 14.48).

14.4 After 15 months of operation, the new process requires adjustments to accelerate claims processing and improve the efficiency of operations. Problems with adjournments and scheduling of hearings reduce the optimal utilization of adjudicators' and Immigration and Refugee Board members' time. Both Employment and Immigration Canada and the Immigration and Refugee Board have initiated corrective measures in these areas (14.49 to 14.60).

14.5 We believe that significant savings could result from streamlining procedures regarding first hearings in cases not contested by the Minister of Employment and Immigration (14.61 to 14.66).

14.6 Our examination revealed that the training of Employment and Immigration Canada's case-presenting officers was deficient. Also, there was no effective control over the qualifications, security status, and possible conflict of interest of interpreters (14.67 to 14.72).

Main Points (cont'd)

14.7 Significant processing delays were occurring in the backlog clearance program as at 31 March 1990. The program was suffering from the same problems as the new refugee status determination process. Unless inefficiencies are corrected and productivity is improved, the backlog clearance program will cost more than estimated and will end later than the target date announced (14.76 to 14.82).

14.8 Our examination also revealed that controls regarding health and security protection of Canadian residents have not always been implemented in a timely manner (14.83 to 14.87).

Table of Contents

Paragraph

Introduction 14.9

Background 14.13

Operating Environment 14.18

Audit Objective and Scope 14.24

The New Refugee Status Determination System 14.27
- The intended deterrent effect of the new refugee status determination process might be compromised (14.32)
- Problems with adjournments and scheduling of hearings affect the efficiency of the system (14.49)
- Significant savings could result from streamlining the first hearing process for claims not contested by EIC (14.61)
- Training of EIC personnel and control of interpreters need improvement (14.67)

The Backlog Clearance Program 14.73
- Significant processing delays as of 31 March 1990 (14.76)
- The operational efficiency of Backlog Canada Immigration Centres could be improved (14.78)

Control of Refugee Claimants 14.83
- Medical and security examinations of claimants have not always been conducted in a timely manner (14.84)
- Insufficient control of persons who do not respond to a notification to appear (14.86)

Exhibits

14.1 Refugee Status Claims Within Canada - 1980 to 1990
14.2 The New Refugee Status Determination Process
14.3 New Refugee Status Determination System - Disposition of Claims

Immigration

Refugees

Introduction

14.9 This country has long participated in the attempt to solve the international refugee problem. As a signatory of the Geneva Convention Relating to the Status of Refugees (the Geneva Convention), Canada is committed to accepting genuine refugees from a country where they could be persecuted for reasons of race, religion, nationality, membership in a particular social group, or political opinion.

14.10 The Immigration Act recognizes, as one of its policy objectives, the need "to fulfil Canada's international legal obligations with respect to refugees and to uphold its humanitarian tradition with respect to the displaced and the persecuted." Since the Second World War, Canada has received some 500,000 refugees.

14.11 Two streams of refugees are accepted in Canada: one for those selected abroad through government or private organization sponsorship; the other for those who come here on their own and are accepted on recognition of their refugee status.

14.12 In 1989, 34,452 refugees were selected abroad and 21,745 claimants applied in Canada. Exhibit 14.1 shows the magnitude of claims made in Canada during the last decade. For 1990, Employment and Immigration Canada (EIC) anticipates receiving over 30,000 claims for refugee status in Canada. This figure does not include those who will be accepted through the backlog clearance process.

Background

14.13 The refugee status determination system in force until 31 December 1988 was designed to handle only a small number of refugee claims from within Canada. In the middle 1980s, however, the system began to break down under an unprecedented number of claims, many of which were made by economic migrants who claimed refugee status under false pretences. The inefficiencies of the system generated further abuses, compounding the delays in the system.

The former refugee status determination system could not handle the high number of claims.

14.14 EIC considered that the procedures under the old system did not provide effective means of dealing quickly and conclusively with claims that obviously had no merit. An elaborate process of review and appeal was available to everyone regardless of the strength or weakness of their claims. The system was thus subjected to rapid increases in the number of claims and suffered large-scale abuse. The responses to such pressures were indirect measures, such as a tightening of visa requirements and substantial increases in resources. Experience showed, however, that such measures alone could not provide an effective solution to the problem. By the end of 1988, a backlog of some 85,000 unprocessed claims had accumulated. For these reasons, the government proposed a bill to amend the Immigration Act.

14.15 On 1 January 1989, Bill C-55 amended the Immigration Act to streamline the processing of refugee claims, to continue to offer protection to those who are really threatened in their country of origin, and to deter claimants who do not need Canada's protection or whose assertions are unfounded. The Bill established a new structure and new procedures for processing claims and created an independent Immigration and Refugee Board (IRB).

14.16 The Act also provided transitional provisions for dealing with the accumulated backlog. Responsibilities for the refugee status determination process were shared between EIC and IRB, as described later in this chapter.

14.17 After 15 months of operation, the new system had accepted as refugees 76 percent of all completed claims. This acceptance rate is one of the highest in the world. EIC and IRB state that the main reason for this high acceptance rate is that, since the beginning of 1989, most claimants are nationals of troubled countries.

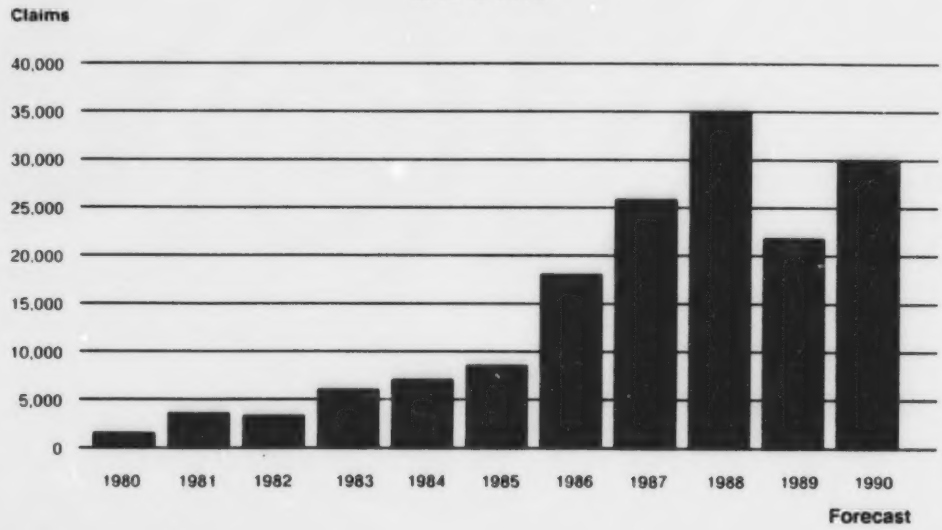
Operating Environment

14.18 Refugee status determination activities are carried out in a sensitive environment characterized by mounting migration pressures, the obligation to comply with the Canadian Charter of Rights and Freedoms, a quasi-judicial determination system, a highly sensitive public profile, and frequent representations on behalf of claimants.

14.19 **Migration pressures are mounting.** As reported in Chapter 12, government officials estimate that some 80 million people, including about 15 million refugees, are currently on the move to find better economic opportunities and social conditions, and freedom from persecution. Canada, with its reputation of providing a safe haven for displaced persons, its economic and social stability, and its easy access to employment and social support systems, is considered an attractive destination. Mounting migration pressures have had an enormous impact on the refugee status determination system since the middle 1980s when the number of refugee claims originating within Canada rose dramatically. Such pressures are expected to continue in the 1990s.

Exhibit 14.1

REFUGEE STATUS CLAIMS WITHIN CANADA
1980 to 1990



For 1990, EIC anticipates receiving over 30,000 claims for refugee status in Canada (see paragraph 14.12).

14.20 The Canadian Charter of Rights and Freedoms. The Canadian Charter of Rights and Freedoms, in particular as interpreted by the Supreme Court of Canada in the 1985 *Singh* decision, provides that protection under section 7 (life, liberty and security of the person) is applicable to everyone in Canada, not only citizens and permanent residents or other persons lawfully in Canada, and that an oral hearing must be held for refugee claimants where a serious issue of credibility is involved.

14.21 Under the Charter, additional rights are available to everyone who is physically present in Canada, such as the right not to be detained without just cause, the right on arrest or detention to be informed promptly of the reasons, the right to retain and instruct counsel without delay, and the right to challenge detention by "habeas corpus". The refugee status determination process must ensure that refugee claimants are afforded all the rights provided to them by the Charter.

14.22 A quasi-judicial system. The hearings provided for in the Act take place before administrative tribunals, and decisions are subject to appeal or judicial review by higher courts. This situation requires formal procedures, and particular care must be paid to the legal aspects of the process, to guarantee compliance with the Immigration Act and Regulations and the Charter. It also creates constraints for EIC in carrying out removal orders

14.23 Refugee status determination activities are sensitive and subject to numerous representations. The refugee status determination process deals with people who are allegedly persecuted in their country of origin and contains numerous special cases. Refugee matters frequently command widespread media attention because of their human dimension. In addition, elected representatives, non-governmental organizations, and private citizens often make representations to public officials regarding specific cases.

Audit Objective and Scope

14.24 The objective of our audit was to assess whether refugee status determination activities were being managed in an economical and efficient manner, given their nature and operational goals. Our review dealt with the processing of the some 33,000 refugee claims

Refugee status determination hearings are held in a quasi-judicial environment (see paragraph 14.22).

originating within Canada from 1 January 1989 to 31 March 1990. We also examined the backlog clearance program for the 85,000 cases that had accumulated by 31 December 1988. The selection abroad of refugees sponsored by the government or private organizations, as well as the selection of persons in designated classes or accepted in Canada as a result of special provisions, were not subject to our audit.

14.25 We focussed our audit on the efficiency of claims processing, as well as on activities aimed at ensuring compliance with the Immigration Act and Regulations, such as training of personnel and controls over interpreters. The audit work was conducted at the national headquarters of EIC and of the IRB, as well as in the Ontario and Quebec regions where 88 percent of claimants are located.

14.26 Significant efforts have been made in the last two years, both by EIC and IRB personnel, to put the new systems in place. We recognized the difficulties in setting up new structures and procedures in a relatively short period of time for both the refugee status determination and backlog clearance processes. It is also important to recognize that both processes were evolving during the period covered by our audit; both organizations were making changes to enhance the systems in place. We nevertheless considered this audit timely, as problems ought to be corrected as soon as possible.

The New Refugee Status Determination System

14.27 The Immigration Act stipulates the procedures for processing refugee status claims made in Canada. The process provides for two hearings. EIC is responsible for the first hearing, which is held before an independent EIC adjudicator and a member of the IRB. This hearing determines whether the claimant is eligible and whether there is a "credible basis" for the claim. If these conditions are met, the IRB holds a second hearing before two of its members to assess whether the person fits the Geneva Convention definition of a refugee.

14.28 Where the decision after either hearing is negative, the claimant may appeal, with leave, to the Federal Court.

14.29 Claimants accepted at the second hearing must meet certain statutory requirements regarding health and security before landing is granted. Exhibit 14.2 illustrates the new refugee status determination process.

14.30 It cost about $83 million to process refugee claims submitted between 1 January 1989 and 31 March 1990. The IRB spent $58 million and used an average of 425 person-years, while EIC used $25 million and 280 person-years.

14.31 According to our estimates, the average direct cost of processing one claim, including both hearings, was about $2,600.

The intended deterrent effect of the new refugee status determination process might be compromised

14.32 Before 1989, many claimants came to Canada thinking that if they could enter the country, they had a good chance of staying here at least three years or even permanently, in view of the slow refugee status determination process. To eliminate the abuses that were occurring under the old system, the amended Immigration Act, in force since 1 January 1989, included several measures to discourage and control the arrival of non-genuine refugees. For instance, fines were significantly increased for smugglers and transportation companies bringing undocumented persons into Canada.

14.33 Some of the reasons for amending the Act were consequently to deter claimants not requiring the protection of Canada and to protect the system against large inflows of claimants who had already had an opportunity to claim the protection of another country or whose claim had no credible basis.

14.34 The amended Act seems to have had an influence over the number of claims at the beginning of l989. For example, claims of persons from several countries that are not a common source of refugees have been eliminated. However, while only 1,360 claims were received during January 1989, the number of claims in Canada has increased steadily and reached about 3,000 a month for the last two months of the year. From January to March 1990, the number of claims had already reached 3,750 per month.

Important measures aimed at deterring people who do not need Canada's protection from making a refugee claim were either not implemented or were not operating as intended.

14.35 The amended Act provided two methods for deterring claimants who do not need Canada's protection: a safe return provision and potential removal after a rapid hearing.

14.36 The safe return provision was never put into practice. The safe return provision in the Act allows EIC and IRB to refuse access to the refugee status determination system to claimants arriving from countries, other than their country of origin, that traditionally respect human rights.

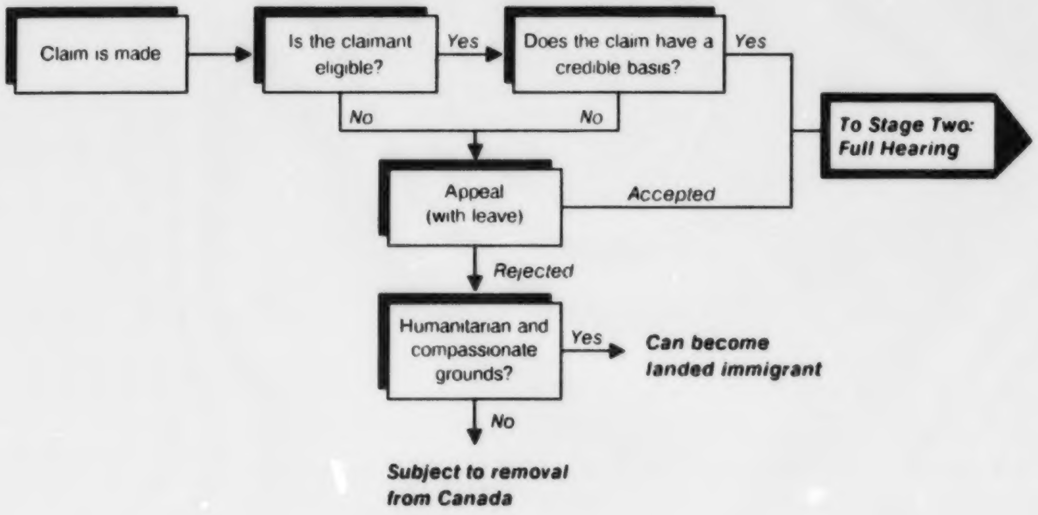
14.37 A list of safe third countries was to be established by Cabinet, with advice from relevant organizations including IRB, the United Nations High Commissioner for Refugees, and non-governmental organizations. The criteria for designating a country as safe were to include its human rights record, its record on non-refoulement (returning people to a country where they face persecution) and other information from reputable sources. The first list was to be established to coincide with the implementation of the new legislation.

14.38 Whether a particular claimant could be returned to a safe third country or not was to be established at the first hearing. A right to appeal would be provided but the claimant would have to wait outside of Canada. EIC estimated at the outset that 40 percent of claimants would be removed to safe countries after a first hearing.

Exhibit 14.2

THE NEW REFUGEE STATUS DETERMINATION PROCESS

Stage One: Initial Hearing


Claim is made
Is the claimant eligible?
Yes
Does the claim have a credible basis?
Yes
No
No
To Stage Two: Full Hearing
Appeal (with leave)
Accepted
Rejected
Humanitarian and compassionate grounds?
Yes
Can become landed immigrant
No
Subject to removal from Canada

14.39 However, the government felt that the safe return provision should not be applied and the list of safe third countries was never established. Consequently, EIC forecasts regarding the number of claims to be processed at second hearings proved inaccurate. The resulting increase in the number of cases raised costs for l989 by about $5 million.

14.40 Expeditious first hearings were expected. EIC had initially planned that claimants would get a first hearing within three to seven days. Yet, after 15 months of operation, it took an average of five months for claimants to be heard.

14.41 At the present time, persons who enter Canada illegally or whose continued presence becomes illegal after legal entry (for instance, a visitor whose visa has expired), must undergo an EIC inquiry for a decision regarding potential detention and/or removal. If these persons claim refugee status, however, an inquiry is held to examine their eligibility. No removal order becomes effective until the refugee status determination process is complete. Without a prompt first hearing, the refugee claim becomes a "license" to prolong their stay.

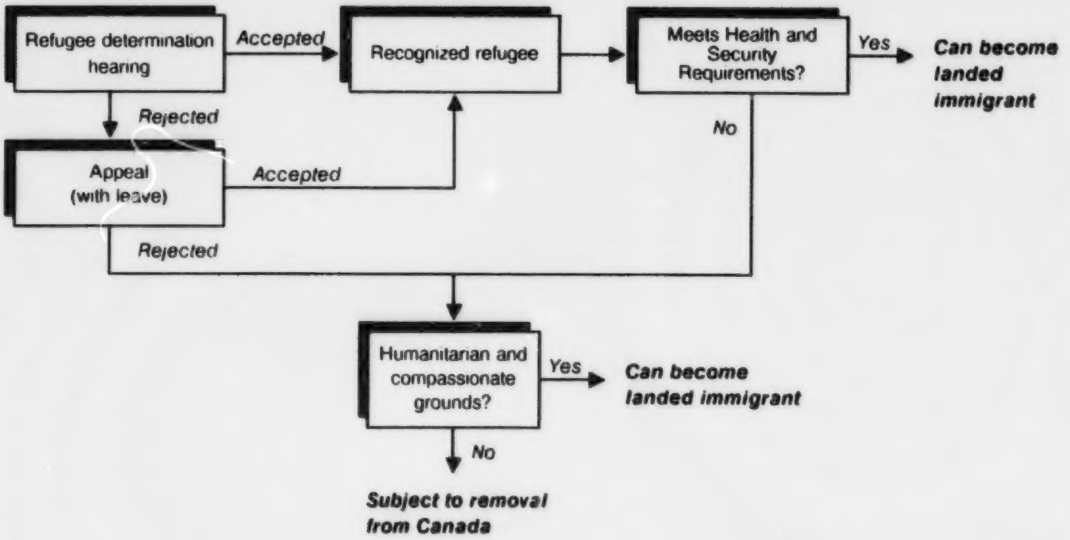
14.42 This situation can create abuses to the system and is costly. At the end of 1989, the average time for the two hearings of a refugee claim was about nine months. During this period, claimants could benefit from Canadian social programs and possibly work illegally. They might also endanger the health and security of Canadians, since no systematic health, security, or criminality examination is made until a positive decision is rendered on the question of refugee status.

14.43 A lengthy process for removals. Following a negative decision at the first or second hearing, claimants should normally be removed from the country. However, as reported in Chapter 15, we found that the majority of removal orders affecting refugee

Exhibit 14.2

THE NEW REFUGEE STATUS DETERMINATION PROCESS

Stage Two: Full Hearing


Refugee determination hearing
Accepted
Recognized refugee
Meets Health and Security Requirements?
Yes
Can become landed immigrant
Rejected
No
Appeal (with leave)
Accepted
Rejected
Humanitarian and compassionate grounds?
Yes
Can become landed immigrant
No
Subject to removal from Canada

claimants have not been carried out (see paragraphs 15.121 to 15.128).

14.44 IRB data, for the period 1 January 1989 to 30 April 1990, showed that 43 percent of claimants who had not been accepted at the first hearing still had not been removed. Furthermore, 95 percent of claimants who had not been granted refugee status at the second hearing were still in the country.

14.45 There are three main reasons for this low removal rate. Firstly, removals to countries experiencing conditions of war or civil strife have been entirely suspended by moratoria. Secondly, there are no removals pending appeals to the Federal Court after the second hearing. Records to date show that almost two thirds of claimants turned down at the initial or second hearing stage apply for leave for a judicial review or an appeal, and that about one third of applicants are granted such leave. The third reason is that removals can be carried out only after a careful review of each case by EIC on humanitarian and compassionate grounds.

14.46 A claimant rejected at the first hearing has consequently one chance out of two, and a claimant rejected at the second hearing is almost assured of staying in the country for a prolonged period of time or permanently.

14.47 Regardless of the reason, the low removal rate reduces the intended deterrent effect of the new refugee status determination process.

14.48 In conclusion, some important measures intended to have a deterrent effect on persons who do not need Canada's protection were either not implemented or were not operating as intended. Consequently, we are concerned that Canada may eventually find itself in a situation similar to 1988, when the number of claims coming in surpassed the processing capacity of the system.

Problems with adjournments and scheduling of hearings affect the efficiency of the system

14.49 Considering the objectives of the new legislation, the refugee status determination process should be both fair and timely to avoid delays that inconvenience claimants and create excessive backlogs and should be efficient to ensure that costs do not become prohibitive.

14.50 Approximately nine months are required for a claim to go through the process of two hearings, while a period of three to four months had initially been anticipated by EIC.

After only 15 months of operation, significant delays were already being encountered in the claims determination process.

14.51 The three-to-four month forecast was established by EIC partly on the basis of the safe return provision and a different mix of claimants. The first 15 months of operation showed that fewer unfounded claims than anticipated were being made. This resulted in a higher number of claims being processed at both hearings.

14.52 Between 1 January 1989 and 31 March 1990, 32,995 refugee claims were submitted in Canada. Of this number, 18,569 claims were examined at a first hearing; 94 percent of these were accepted and referred to a second hearing. Of these, 7,850 were processed; 87 percent were allowed and referred to landing. As illustrated in Exhibit 14.3, as of 31 March 1990, 23,499 claims, or 71 percent of total claims received, were pending at various stages of the process. After only 15 months of operation, significant delays were already being encountered in the new claims determination process.

14.53 **Adjournments.** We found that the number of adjournments at both hearings was very high. To better understand the situation, we accumulated statistics on adjournments for one major region. We found that, for that region, 33 percent of first hearings were, on the average, adjourned 1.8 times. At the second level, 27 percent of hearings were adjourned.

Adjournments and scheduling problems reduce the optimal utilization of adjudicators' and IRB members' time.

14.54 Adjournments are mainly due to the lack of availability or readiness of legal counsels representing claimants and to the insufficient time scheduled for completion of hearings. Each adjournment delays the process by about one month. We believe that adjournments can be decreased by improvements in scheduling.

14.55 **Scheduling of hearings.** We found that adjournments and the average hearing time were not properly taken into account in the scheduling of hearings.

14.56 While we appreciate that there are bound to be difficulties in implementing a new process, the adjournments and scheduling problems cause inefficiencies in the system and reduce the optimal utilization of adjudicators' and IRB members' time. For instance, we calculated that for first hearings during 1989, only 59 percent of time set aside for this purpose was used by adjudicators and IRB members.

14.57 During 1989, 6,400 claims went through second hearings. This represents 57 percent of the objective established by IRB for such hearings. However, we noted that IRB members did meet their objective in the first three months of 1990.

14.58 In January 1990, EIC implemented a pilot project in one region to try out an accelerated scheduling process for hearings.

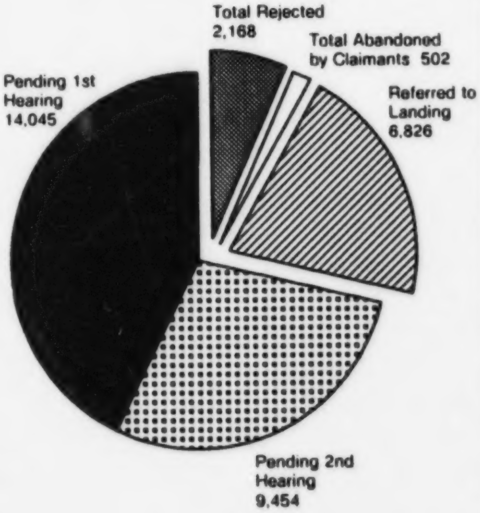
14.59 IRB has also instituted a pilot project using only one member at second hearings in an attempt to accelerate the process in cases that appear well founded. EIC and IRB also met with representatives of the legal profession to reduce the number of adjournments requested by claimants' counsels.

14.60 EIC and IRB should take the necessary steps to reduce the number of adjournments and improve the scheduling of hearings.

Response from EIC: *It is noteworthy that Immigration hearings/inquiries operate in a quasi-judicial environment; the rights of the person concerned must be respected. Practically, this means that Adjudicators must observe legal protocol at hearings/inquiries and efficiency, although important, cannot be the dominant factor.*

Exhibit 14.3

NEW REFUGEE STATUS DETERMINATION SYSTEM DISPOSITION OF CLAIMS



32,995 CLAIMS RECEIVED; 23,499 PENDING

Improvements to the inquiry scheduling have been ongoing since the refugee status determination system was implemented in January 1989. For both backlog and those inquiries held under the new legislation, computer systems have been developed to assist in scheduling.

An in-depth review of inquiry scheduling practices was conducted in June, 1990 by an Immigration and Adjudication Task Force. Two areas of concern were identified: the high adjournment rate and the efficiency and effectiveness of scheduling at Immigration inquiries and hearings.

Detailed directives outlining a modified approach to reduce the number of adjournments and increase the efficiency and effectiveness of scheduling were distributed in August 1990.

The adjournment rate will be closely monitored and adjustments made where necessary to assure maximum efficiency and effectiveness in the context of a quasi-judicial system.

Response from IRB: *The IRB has and will continue to explore avenues to reduce the number of adjournments and increase the effectiveness of the scheduling system. In fact, the IRB has made considerable improvement in their scheduling of full determination hearings, as shown by the increase of over 50 percent in the number of hearings completed over the past six months.*

Significant savings could result from streamlining the first hearing process for claims not contested by EIC

14.61 The first hearing is heard by an EIC adjudicator and a member of the IRB. In addition to the claimant and his/her lawyer, an officer responsible for presenting cases on behalf of the Minister of Employment and Immigration and an interpreter also attend the hearing. This means that six persons must be available and ready to proceed on a given date. In case of adjournment, six persons must again get together on a date convenient to all. We found that the average length of time to

We question the value-for-money aspect of present first-hearing procedures for cases not contested by the Minister's representative.

conclude the first hearing is five months from the time a claimant arrives in the country.

14.62 EIC estimated at the outset that 44 percent of claims would be accepted at the first hearing, based on an historical mix of countries of origin and taking into account the application of the safe return provision. However, the mix of claimants changed and the safe return provision was never put into force. As of 31 March 1990, 94 percent of claims had been allowed at this level.

14.63 We also found that 87 percent of these claims were not challenged by the case-presenting officer, since EIC considered that claimants were eligible and had a credible basis to make a refugee claim. In these cases, the Act compels the adjudicator and the IRB member to refer the case to the second hearing automatically. While we recognize the important deterrent effect of the first hearing, we question the value-for-money aspect of present first hearing procedures for those cases not challenged by the Minister's representative.

14.64 According to our estimates, if the first oral hearing had been eliminated for conceded cases, approximately $1 million could have been reallocated in 1989 to process more claims.

14.65 In the fall of 1989, EIC launched a system of group hearings for cases originating from the same country that were not challenged by the Minister. EIC is also considering a pilot project called "paper screening", which will enable the elimination of first oral hearings in cases that appear to be well founded.

14.66 EIC should streamline the first hearing process for cases not contested by the Minister of Employment and Immigration.

Response from EIC: *This solution was identified as an option late in 1989. Hence, EIC had undertaken two pilot projects (Vancouver and Niagara Falls) to evaluate a simplified inquiry process, in which all cases that are conceded at first level hearings will be dealt with by means of a paper process only. After evaluating these pilots (completion expected by the end of September 1990), EIC intends to implement the process nationally.*

Response from IRB: *The IRB agrees and is in total support of the "paper screening" initiative, designed to ensure more expeditious processing of claims that are not contested by the Minister of Employment and Immigration. The Board is making every effort to get this process underway.*

Training of EIC personnel and control of interpreters need improvement

14.67 Given the importance of decisions rendered, there is a need for procedures to ensure adequate training of EIC and IRB personnel and proper control over interpreters.

14.68 Inadequate training of case-presenting officers. At EIC, we found that the training given to newly appointed adjudicators was satisfactory. However, we noted deficiencies in the training given to case-presenting officers. Their duties require them to be familiar with numerous acts, regulations, policies and procedures, country profiles and recent political events, and jurisprudence relevant to immigration. These requirements are particularly demanding for the 33 percent of officers who were appointed without previous immigration experience. Not only was the course designed for officers with previous experience, it was also cancelled five times in 1989/90. Furthermore, in April 1990, EIC decided to alter the course extensively, and the revised course is not expected to be offered before October 1990.

14.69 At IRB, we found that the training given to members and hearing officers was generally satisfactory.

14.70 Insufficient control over interpreters. EIC, IRB and claimants need to have complete, accurate, and objective interpretation of statements made at hearings to ensure fairness in the system. We found that there were insufficient controls over the qualifications, security status, and potential conflicts of interest of interpreters, at both EIC and IRB.

14.71 The list of interpreters even included some refugee status claimants. While we recognize the difficulties in finding interpreters for many foreign languages, we believe that stricter controls are essential.

14.72 EIC should ensure that case-presenting officers are properly trained. EIC and IRB should ensure that interpreters are qualified, have proper security clearance, and are not in a conflict-of-interest situation.

Response from EIC: *EIC is in the process of developing a comprehensive training program for Case Presenting Officers (CPOs). A three-week introductory training course for CPOs was developed in the fall of 1988. This course was revised in May 1990 and has been delivered on a pilot basis in June 1990. A recommendation has been made for the regions to provide an extensive orientation program to new CPOs. This would involve a series of rotational assignments as Examining Officers, Counsellors and Investigators. EIC expects to develop an advanced CPO training course for the spring of 1991. As well as these formal courses, EIC holds regular in-service training programs at the local and regional level, annual national CPO conferences and bi-annual national CPO supervisor meetings, in order to upgrade skills and knowledge.*

Interpreter competence has been of serious concern to EIC for some time. During the past year a project has been underway to develop security classification for interpreters, a national pay scale, a standard personal service contract form which can be used nationally, and accreditation test standards. A test has already been developed in Spanish, and work is proceeding on other languages. Subject to additional resources being allocated by the Treasury Board, the target period for implementation is the fall of 1990. This should ensure a national standard for interpreters, and eliminate conflict-of-interest situations.

Response from IRB: *The IRB is presently developing a test, in conjunction with EIC and Secretary of State, to ensure the competence of interpreters working for the Board. Security checks are being initiated for all interpreters employed by the Board. Conflict-of-interest issues are addressed during training; in addition, interpreters sign a declaration regarding the code of conduct expected of them before each hearing. Finally, a handbook is being developed for interpreters, which includes information on conflict of interest.*

The Backlog Clearance Program

14.73 When the revised Act came into force on 1 January 1989, some 85,000 cases remained unprocessed from the old system. To process these outstanding claims, the Act provided transitional provisions. Regulations dealing with this question were promulgated on 27 December 1989.

> *Serious doubts exist as to the capacity of the system to eliminate the backlog within the budgetary limits and by the deadlines provided.*

14.74 This system is similar to the new refugee status determination system. However, it differs on the following point: if, during a first hearing, a claim is recognized as having a credible basis, the claimant is immediately considered eligible for landing without having to further prove that his/her situation corresponds to the definition of refugee outlined in the Geneva Convention. This system was intended to be faster and more economical than the system used for new claimants.

14.75 To clear all cases, the Treasury Board authorized, in January 1989, a sum of $105 million, which amounts to $1,235 per case, and 1,018 person-years. EIC was allotted $94 million and 854 person-years, and the remainder went to IRB. An additional amount of $76 million has been authorized to provide language training and settlement assistance for eligible persons.

Significant processing delays as of 31 March 1990

14.76 EIC originally set a two-year deadline, starting on 1 April 1989, to clear the entire backlog. However, the backlog clearance program did not start until September 1989 because of the priority given to the new refugee status determination system and because of delays in obtaining a cabinet decision on what approach to use for treating the backlog, implementing the organizational structure, developing the process, preparing the regulations, and recruiting and training personnel. Accordingly, EIC extended its deadline to September 1991.

14.77 Based on observations made in the Quebec and Ontario regions, which account for 93 percent of the backlog, actual productivity and resources make it very unlikely that the revised deadline will be met. Indeed, as of 31 March 1990, seven months after the revised date of program implementation, only 2,073 cases had been completed. These cases were mostly "voluntary departures", that is, persons whose cases were at the very beginning of the process and who were counselled to leave Canada voluntarily. According to EIC plans, the number of cases resolved after seven months should have been 21,450. Nonetheless, approximately 26,000 cases were in process, of which 10,550 had reached the landing stage, the last stage in the process.

The operational efficiency of Backlog Canada Immigration Centres could be improved

14.78 We observed that Backlog Canada Immigration Centres suffered from the same problems of adjournments, scheduling of hearings, and productivity that we found in the new refugee status determination process (see paragraphs 14.53 to 14.60). Accordingly, only 50 percent of adjudicators' and IRB members' planned available time was being used.

14.79 Shortcomings noted in the new refugee status determination process with respect to training of case-presenting officers, and control of interpreters, also apply to the backlog clearing system (see paragraphs 14.68 to 14.72).

14.80 We also question the value-for-money aspect of the present hearing procedures for cases not contested by the Minister of Employment and Immigration.

14.81 At the time of our audit, EIC was considering a pilot project of paper screening to accelerate the process and modifying the scheduling of hearings to use resources in a more productive manner. EIC had also held meetings with representatives of the legal profession to reduce the number of adjournments caused by lawyers.

14.82 EIC should:

- **streamline the oral hearing process for backlog cases not contested by the Minister of Employment and Immigration;**
- **ensure that case-presenting officers are properly trained;**
- **ensure that interpreters are qualified, have proper security clearance, and are not in a conflict-of-interest situation.**

Response from EIC: *A new paper screening process for backlog cases, implemented in Ontario, Quebec, British Columbia and Alberta in the summer of 1990, will screen out cases almost certain to be conceded or be given* *favourable humanitarian consideration. It is anticipated that fewer panel hearings and fewer humanitarian and compassionate interviews will be required, thus greatly reducing processing time.*

EIC's initiatives to ensure that Case Presenting Officers are properly trained are outlined in 14.72.

The development of national standards, security screening and measures to eliminate conflict-of-interest situations for interpreters is described in 14.72.

***Response from IRB:** The IRB agrees that streamlining the oral hearing process for uncontested claims is necessary; to this end, it has given its total support to the "paper screening" initiative that has been piloted over the past few months. The measures taken by the Board to ensure that interpreters are qualified, have proper security clearances and are not in conflict of interest are outlined under 14.72 above.*

Control of Refugee Claimants

14.83 As mentioned in Chapter 15, one objective of the Immigration Act is to protect the health and security of Canadian residents (see paragraphs 15.56 and 15.79). Consequently, the Act provides for controls to ensure that this objective is met.

Controls regarding health and security protection of Canadian residents have not always been implemented in a timely manner.

Medical and security examinations of claimants have not always been conducted in a timely manner

14.84 The Act stipulates that new claimants who are referred to a second hearing shall undergo a medical examination. We found that these examinations were not made systematically until the claimant had been granted refugee status and the request for landing had been reviewed. Six months might elapse between the referral of a case to a second hearing and the medical examination. The situation appears even more serious when we consider that completion of the first hearing takes an average of five months.

14.85 We also observed that 43 percent of backlog claimants had not passed a medical examination since their arrival in Canada. Furthermore, very few of them had been the subject of security and criminality investigations. Most of the persons in this backlog entered Canada between May 1986 and December 1988.

Insufficient control of persons who do not respond to a notification to appear

14.86 As of 31 March 1990, approximately 6,000 backlog claimants had not shown up after a notification to appear at one or another stage of the process. EIC had not taken any steps to trace these persons. In regard to the whole backlog, EIC planning assumes that 15,700 persons will not show up. Consequently, a number of persons will remain in Canada illegally and without any immigration control, unless EIC takes appropriate measures.

14.87 EIC should:

- **consider having medical examinations and security and criminality checks conducted promptly following a person's claims for refugee status, given the high percentage of acceptance experienced to date;**
- **ensure that an investigation is made in all cases of claimants who do not respond to a notification to appear;**

- **ensure, as soon as possible, that claimants in the backlog undergo health and security checks.**

Response from EIC: *Few refugee claimants who have been processed for permanent residence have been found to be criminals, or to be suffering from serious medical problems. Further, procedures are in place to conduct criminal checks on persons arriving at ports of entry whose identity is in doubt. Efforts will be made to speed up medical and security checks.*

Initially there was some delay in referring cases for investigations in the larger centres while backlog investigation units were being set up. An investigations plan has now been established and is currently under way. Cases that do not respond to notification to appear are now to be referred to investigators within 24 hours.

It should be noted that 57 percent of backlog claimants were medically examined upon arrival. EIC initiates medical and background checks for backlog claimants as soon as provisional acceptance has been given to process them towards landing.

15

Immigration

Control and Enforcement

Immigration

Control and Enforcement

Main Points

15.1 The Canadian immigration control and enforcement system is structured around three main intervention points: overseas screening, port of entry examinations, and inland control and enforcement. The main objectives of control and enforcement activities are to identify inadmissible persons and prevent their entry into Canada; to control the stay of those who are allowed temporary entry; to detain persons who pose a security risk or a serious criminal threat; and, normally, to remove from Canada persons in contravention of the Immigration Act or Regulations (paragraphs 15.13 and 15.14).

15.2 The challenge represented by these objectives is a daunting one. The judicial nature of the process, the high number of appeals of immigration decisions, the pressure exerted by numerous organizations and the volume of activities have a serious impact on the extent to which immigration control and enforcement objectives are reached (15.17 and 15.18).

15.3 Our audit raises concerns about the operational effectiveness of key control and enforcement activities (15.25 and 15.26).

15.4 At the Primary Inspection Line (PIL), the initial checkpoint at Canadian ports of entry, lookout information for identifying persons deemed inadmissible was not effectively used. Training of customs officers in immigration matters was limited and inconsistent. We found that the management control of the PIL had been weakened by the lack of a performance measurement system on immigration matters and limited feedback information on referrals (15.27 to 15.55).

15.5 We found that the results of security screening activities need to be evaluated. Even where reports provide reasons for inadmissibility, few of them result in rejections, and there is no assurance that criminal checks are complete. We found also that medical screening activities lack the control standards necessary to ensure compliance with the Act in preventing entry of persons who would pose a danger to public health or create excessive demands on Canadian health and social services (15.56 to 15.82).

15.6 Our examination further revealed that terms and conditions are not imposed consistently when landing entrepreneurs. Also the majority of entrepreneurs landed with terms and conditions are not required to provide evidence of compliance. Entrepreneurs in breach of conditions have not been removed (15.93 to 15.101).

Main Points (cont'd)

15.7 Our examination of immigration enforcement procedures revealed that, in spite of improvements since 1989, a serious backlog of investigations still exists in one region and the efficiency in this area needs to be improved. There are long delays in obtaining necessary relevant information from the Canadian Police Information Centre files and other sources (15.108 to 15.120).

15.8 In the majority of cases involving refugee claimants, removals are either delayed or cancelled due to a variety of reasons, which include appeals, temporary suspensions of removals to countries experiencing conditions of war or civil strife, and other humanitarian and compassionate grounds. This has afforded assurance of a protracted stay in Canada for most claimants. We question the economy, efficiency and operational effectiveness of a process where the carrying out of enforcement actions is the exception rather than the rule (15.121 to 15.128).

15.9 Our examination also revealed inefficiencies resulting from the use of Minister's permits to grant temporary status to persons who have violated the provisions of the Immigration Act or who are inadmissible to Canada (15.129 to 15.142).

15.10 Finally, our audit of the Field Operations Support System, a key source of information for immigration officers, indicated that access to the system was unreliable and that the data supplied was incomplete and sometimes misleading (15.144 to 15.152).

15.11 EIC has made significant efforts to overcome the challenges of the program in several of the areas discussed above, including a new immigration security screening project and a review of medical inadmissibility policies and procedures. We believe, however, that implementation of our recommendations would greatly assist EIC in achieving its control and enforcement objectives in a cost-effective manner (15.74 and 15.82).

Table of Contents

Paragraph

Background 15.12

Objective and Scope of the Audit 15.19

Control Activities 15.25
The operational effectiveness of some key immigration controls needs to be improved (15.25)

The Primary Inspection Line 15.27
Operational deficiencies at the Primary Inspection Line (15.31)
Insufficient performance measurement and feedback weaken controls of the Primary Inspection Line (15.50)

Security Screening 15.56
Some concerns regarding the results of security screening (15.56)

Medical Screening 15.78
Inconsistent application of medical admissibility criteria (15.78)

Obligations of Transportation Companies 15.83
Transportation companies contest fines (15.83)

Entrepreneurs 15.93
Inconsistent application of terms and conditions of admission for entrepreneurs; controls not enforceable (15.93)

Enforcement Activities 15.102
Integrity of immigration control affected by exceptions (15.102)

Investigations 15.108
The rebuilding of the investigation function is under way (15.108)
More efficient investigations needed (15.115)

Removals 15.121
The majority of orders for removal of refugee claimants have not been carried out (15.121)

Minister's Permits 15.129
The use of Minister's permits creates inefficiencies (15.129)

Field Operations Support System 15.144
Access to the Field Operations Support System and quality of data need to be improved (15.144)

Table of Contents (cont'd)

Exhibits

15.1 Travellers Entering Canada - 1988/89
15.2 Status of Cases for Rejection Briefs Issued - 1987/89
15.3 Status of Cases for Information Briefs Issued - 1987/89
15.4 Enforceable Removal Orders

Immigration

Control and Enforcement

Background

15.12 The main objectives of the control and enforcement provisions of the Immigration Act are to prevent the admission of people who may be harmful to the health or social or economic well-being of Canadian residents or to the national security of Canada, and to detect and remove from Canada persons in contravention of the Act. Another objective of the Act is to facilitate the entry of bona fide visitors into Canada for the purpose of fostering trade and commerce, tourism, cultural and scientific activities, and international understanding.

15.13 Control and enforcement activities are intended to: identify inadmissible persons and prevent their entry into Canada; control the stay of those who are allowed temporary entry; detain persons who pose a security risk or a serious criminal threat; and, as appropriate, remove from Canada persons in contravention of the Act or Regulations. The activities designed to achieve those results include health, security, and criminality checks, the issuance of control documents, investigations, inquiries, appeals, detentions and removals. In addition, Employment and Immigration Canada (EIC or Immigration) recognizes the need to maintain a high level of service for those who are in compliance with the Act and Regulations.

15.14 The Canadian immigration control and enforcement system is structured around three main intervention points. They are overseas screening, port of entry examinations, and inland control and enforcement.

15.15 As explained in Chapter 12, the delivery of the Immigration Program involves many organizations. The responsibilities in the area of control and enforcement are shared among EIC, the Immigration and Refugee Board (IRB), which is independent from EIC, the Department of External Affairs (DEA), the Department of National Revenue/Customs and Excise (Customs), the Royal Canadian Mounted Police (RCMP), the Canadian Security Intelligence Service (CSIS), and the Department of National Health and Welfare (HWC).

15.16 The resources allotted to control and enforcement are substantial. Direct expenditures for control and enforcement activities within EIC for 1989/90 were in the order of 1,500 person-years and $86 million. In addition, expenditures by other departments and agencies (RCMP, CSIS, DEA, IRB, and HWC) exceeded 870 person-years and $54 million. Customs expenditures are not readily identifiable.

15.17 The challenge of control and enforcement is partially conveyed by the following. In 1988/89, 101.3 million travellers entered Canada. Of these, 37.9 million were American residents, 3.7 million were from other countries, and 59.7 million were Canadian residents. Worldwide, some 80 million persons are estimated to be residing outside their own national boundaries, and there are an estimated 15 million refugees. Many of these seek to migrate for economic or other reasons, and Canada is generally considered to be an attractive destination. Canada has a policy and a tradition of providing safe haven for refugees and displaced persons; it offers relative social and economic stability and easy access to social support systems and employment.

15.18 The combination of procedural fairness requirements of immigration legislation, the Canadian Charter of Rights and Freedoms, and obligations under the Geneva Convention Relating to the Status of Refugees, provide extensive rights for migrants and refugee claimants. Anyone who succeeds in reaching Canadian territory, whether legally or illegally, is afforded the protection of the Charter of Rights and Freedoms. This involves due process of a claim for protection with several levels of appeal before persons are removed from Canada. This reality has a far-reaching impact on immigration control and enforcement.

Objective and Scope of the Audit

15.19 Our audit covered control and enforcement activities at ports of entry into Canada and inland in order to determine if they were being carried out with due regard to economy and efficiency, and in compliance with the Immigration Act and Regulations. We also assessed the operational effectiveness of these activities.

15.20 The EIC audit covered the national headquarters and 14 Canada Immigration Centres (CICs) located in three regions: Quebec, Ontario, and British Columbia. Audited areas included the obligations of transportation companies, the entrepreneur program monitoring, investigations, removals, the use of Minister's permits, and automated support systems.

15.21 In our port of entry examination, we visited Customs and Immigration at the head offices, five major airports, nine important land border crossings, and five Customs regional offices. The regions that we visited process more than 50 percent of travellers entering Canada and employ the majority of customs officers assigned to a Primary Inspection Line (the initial checkpoint at ports of entry). The audit focussed on training of customs officers in immigration matters, use of immigration information to identify inadmissible persons, functions performed at the Primary Inspection Line (PIL), and management controls over procedures at the PIL, including performance measurement and feedback.

15.22 At the RCMP, the audit work was carried out at headquarters and in three divisions. In relation to CSIS, we focussed on how the advice resulting from the security screening of potential immigrants was being used by EIC.

We looked at how key immigration activities are carried out to achieve control objectives and to protect society.

15.23 We reviewed Health and Welfare's medical screening operations in Ottawa, with an emphasis on compliance with medical admissibility criteria stipulated in the Immigration Act.

15.24 Enforcement actions taken against refugee claimants whose claims were rejected by the IRB are also covered in this chapter.

Control Activities

The operational effectiveness of some key immigration controls needs to be improved

15.25 The control system was developed to regulate the entry into Canada of both immigrants and visitors and to facilitate their stay. Control measures include: screening offshore and at ports of entry; documenting immigrants and visitors from visa-required countries, foreign students, and temporary workers; and ensuring compliance with terms and conditions related to entry into and stay in Canada.

15.26 Controls should be enforceable, efficient and consistently applied. Enforcement actions should be carried out where appropriate. Our examination of control activities indicated that they do not fully meet these criteria.

The Primary Inspection Line

15.27 Canadian ports of entry are the pivotal points in the whole control system. Regardless of whether a person seeking to come into Canada has been examined at a visa office abroad and has obtained a visa, the ultimate decision to grant or deny entry belongs to the Customs and Immigration examining officers at the port of entry. These officers also decide the degree of control to which the person will be subject while in Canada.

15.28 At ports of entry, increased workloads and the need to facilitate entry have resulted in the development of an integrated examination system: the Primary Inspection Line. In this system, the initial examination of all travellers to ensure they meet the requirements, in relation mostly to areas of customs, immigration, health and agriculture, is conducted by the officer of one service, usually Customs. This integrated system benefits travellers entering Canada, since the vast majority are admitted after a first examination. Customs officers refer travellers to Immigration for further examination when they are deemed inadmissible, are identified in immigration lookout information, fall within certain specified classes, or require further documentation or examination. Exhibit 15.1 illustrates the distribution of travellers entering Canada by types of ports of entry.

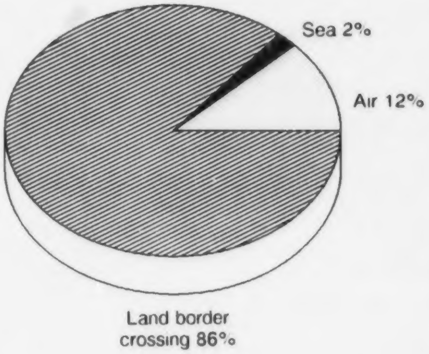
15.29 An interdepartmental agreement, signed in 1983, defines the working relationships between Customs and Immigration. This agreement sets out the responsibilities of both entities in delivering the immigration program at ports of entry.

15.30 Customs officers have to rely mainly on their personal judgment to determine within an average of 30 seconds whether a traveller should be admitted or ought to be referred to Immigration for a more detailed examination. In this context, adequate training of officers, proper advance information on persons deemed inadmissible, performance measurement of the PIL, and regular and meaningful feedback on referrals are essential for ensuring proper delivery at the PIL. In the course of our audit, we observed a number of operational deficiencies and weaknesses in management controls at the PIL.

Exhibit 15.1

TRAVELLERS ENTERING CANADA
1988/89

Types of Ports of Entry



In 1988/89, the 101.3 million travellers entering Canada included:

59%	Canadian residents
37%	U.S. residents
4%	Residents of other countries

Operational deficiencies at the Primary Inspection Line

15.31 In view of the importance of immigration control at ports of entry and the complexity of immigration legislation, policies, and directives, appropriate training of customs officers is essential. Its significance was recognized by both Customs and Immigration, and provisions were included in the interdepartmental agreement calling for customs officers to receive training prior to PIL assignments and maintenance and skills upgrading every three years. Accordingly, Customs has taken the position that its officers ought to be trained prior to PIL assignments.

15.32 Under the agreement, Immigration is responsible for designing and presenting training courses on immigration matters to customs officers. Customs is responsible for advising Immigration on its training needs and, where requested, for providing course evaluations.

15.33 Training of customs officers on immigration matters is limited and inconsistent. Although assignment to the PIL is an entry level position at Customs, its immigration component is unique and highly specialized. At the PIL, most officers perform the same duties regardless of their employment status and training received. We found that the majority of customs officers assigned to the PIL in the regions visited had received limited training on immigration matters: most PIL officers received one- or two-day training session at the ports; maintenance and skills upgrading was almost non-existent. While Customs intends to provide immigration training to new full-time customs officers centrally, the practice for many years for most PIL officers had been limited to basic training session at the ports.

15.34 These basic training sessions are developed by local staff at Immigration and are inconsistent. We found that they do not follow any minimum standard in terms of course content, supporting documentation, presentation and duration. These sessions are neither evaluated nor validated. Between April 1986 and December 1989, 50 percent of the new full-time customs officers as well as the term and casual employees and students, who represent 56 percent of all new customs officers, were trained locally.

15.35 Customs and Immigration determined that central training is appropriate to prepare new full-time customs officers for their immigration responsibilities. In 1989, Customs expanded the immigration component to a five-day session and made its comprehensive training program mandatory. This training is given at Customs and Excise College in Rigaud, Quebec. It has been evaluated by Customs and is regularly monitored by both organizations. However, existing staff are not entitled to receive it.

15.36 During the audit, we found that Customs had not attempted to analyse maintenance and skills upgrading needs for its existing staff at the PIL. At Immigration, management recognized a need for such training every three years, as stated in the agreement. However, this concern was not felt by Customs to the same extent. We noted that in December 1989, over 60 percent of permanent customs officers in the regions we visited had been on the job for three or more years and had received only local training when they started.

15.37 The deficiencies observed in the training of customs officers and the lack of maintenance courses lead to reduced efficiency and inconsistent application of immigration policies and procedures at ports of entry.

15.38 There is a lack of appropriate immigration lookout information. Immigration deems certain individuals inadmissible or requires that they be further examined before they are admitted into Canada. A readily accessible and accurate data base on these individuals would help customs officers identify them if they sought entry into the country. According to the agreement, Immigration is responsible for developing and maintaining the lookout information system and Customs is responsible for making effective use of it at the PIL.

Operational effectiveness of the Primary Inspection Line is doubtful, due to limited training and poor lookout information.

15.39 Lookout information provides customs officers with names and particulars of persons who are inadmissible to Canada. These are mainly known or suspected terrorists, serious criminals, and previous deportees. This information comes from national or regional headquarters, or local operations, and can be distributed nationally or locally. It is valid for various periods from a few hours up to a month. Immigration distributes a lookout book to airports and to some land border crossings.

In addition, all ports of entry receive individual lookout notices.

15.40 We noted deficiencies in the format and use of the existing immigration lookout information. Immigration has not developed a system to provide for the maintenance and effective use of lookout information by Customs at the PIL. In most of the ports visited, we found that Immigration management was not able to provide a set of lookout notices with assurance that they were complete and current.

15.41 At Customs, we observed that efforts to make effective use of the lookout information vary. The lookout book consists of over 3,500 names and is time-consuming to consult. As a result, we noted that it is rarely consulted by customs officers. The lookout notices for the PIL differ in format from region to region and are difficult to consult. Customs management provides a summary of the information contained in the lookout notices to aid the PIL officers at only a few ports of entry visited. In a test conducted during our visits, we observed that the set of lookout notices differed from one PIL booth to another at the same port and few matched the set provided by Immigration. Customs management has not taken steps to ensure that proper lookout information exists at all PIL sites. The lack of complete and readily accessible lookout information increases the risk of Customs admitting inadmissible persons to Canada.

15.42 Recognizing the shortcomings of the existing manual system, both organizations jointly set up an automated system for pilot testing at the Vancouver International Airport. In February 1989, the evaluation of the pilot project was completed; management from both organizations agreed to develop the system for nation-wide use. Near the end of our audit, they were in the process of seeking approval from Treasury Board to implement the system over four years in all major ports of entry.

15.43 In the meantime, no action has been planned by Immigration or Customs to enhance the format, use, and management controls of the existing lookout system.

15.44 We are of the opinion that the lack of an appropriate immigration lookout data base and the ineffective use of existing information reduce the level of protection of the Canadian public.

15.45 Customs officers do not perform all delegated PIL functions. According to its agreement with Customs, Immigration delegates certain functions to customs officers at the PIL. Some of these functions are to admit travellers into Canada, to stamp passports, and to prescribe length of stay when required.

15.46 At major airports, customs officers stamp passports of visitors other than American citizens. This automatically limits their stay in Canada to three months. An Immigration directive effective May 1988 calls for Customs to extend the stay of bona fide visitors from three to six months. This was intended to improve the efficiency of immigration operations by reducing the workload of processing visitor extensions. However, at major airports, Customs still does not extend the stay of travellers to six months.

15.47 At major land border crossings, except for three ports in one area, Immigration retains the function of admitting visitors other than American citizens into Canada. Consequently, customs officers automatically refer these visitors to Immigration for further examination. The automatic referrals account for a significant portion of total referrals from Customs' PIL process. Moreover, operational data showed that 92 percent of all travellers referred at these land border crossings require no further documentation by Immigration to be admitted into Canada. At major airports, automatic referrals account for 60 percent of the total. The number of referrals from Customs has a direct impact on the amount of EIC resources assigned to ports of entry. Immigration is unable to justify the automatic referral process. No action had been taken to alter this long-standing practice or to update the agreement.

15.48 In our view, this situation introduces inconsistent practices at major land border crossings and could lead to inefficient use of resources.

Lookout notices differ in format from one PIL to another (see paragragh 15.41).

15.49 Customs and EIC should:

- **identify training needs and provide appropriate and consistent initial and refresher training to customs officers;**
- **develop interim measures to improve the use of the lookout book and notices while the automated system is being developed and implemented;**
- **re-evaluate the functions delegated through their interdepartmental agreement and update it as necessary.**

Response from Customs: *Customs is prepared to work with EIC to develop an evaluation program that would be used to identify which officers might not meet the necessary knowledge level to carry out immigration procedures and to develop an appropriate refresher course.*

Customs is prepared, in concert with EIC, to examine what measures might be more suitable as an interim lookout program, and could be implemented within existing resource limitations.

Customs will work with EIC to carry out the review and updating process of functions delegated throughout the agreement.

Response from EIC: *Training needs are being reviewed within the context of updating the interdepartmental agreement. EIC and Customs have been aware of this issue for well over a year. In the spring of 1990, a new training module was developed by Quebec Region. This module is being reviewed by other regions with a view to establishing a national course to be delivered by the regions. A monitoring plan will be put in place to ensure compliance by both EIC and Customs.*

EIC has initiated talks with Customs to find ways to improve the use of the lookout book and perhaps streamline this system, subject to resource considerations. At the same time, EIC will establish at all major ports of entry an automated lookout system which was tested and evaluated in 1988/89.

All functions delegated will be reviewed and updated as part of the exercise to revise the interdepartmental agreement.

Insufficient performance measurement and feedback weaken controls of the Primary Inspection Line

15.50 A performance measurement system for immigration matters is lacking. The interdepartmental agreement specifies that Immigration is responsible for the development of a performance measurement system to determine the efficiency and the effectiveness of the PIL process as it relates to immigration matters. This type of management control mechanism is needed to provide the basis for ongoing monitoring of the PIL process and input into its periodic evaluation. Until now, Immigration devoted all its measurement efforts to the effectiveness dimension.

There is a lack of performance measurement at the Primary Inspection Line.

15.51 In 1987/88, Immigration conducted an effectiveness measurement of the PIL. Results were inconclusive. We noted that since late 1989, Immigration and Customs have discussed the need for a system to measure the performance of the immigration function at the PIL. However, many issues remain to be resolved and possible system implementation dates have not yet been discussed.

15.52 Feedback information on referrals is limited. At airports and land border crossings, certain cases, other than those mentioned in paragraph 15.47, are referred from the PIL to Immigration for a secondary examination prior to admitting the travellers into Canada. We found that Immigration maintains some information on the appropriateness and the results of referrals. Customs has not requested feedback on the quality of its referrals, and information provided by Immigration is limited. Except for the number of referrals, there is no department-wide arrangement for regular and meaningful feedback. Where it takes place, it is largely due to local or individual initiatives.

15.53 Customs does not question the accuracy of the only quantitative data on referrals provided by Immigration. We noted that the total number of referrals used by the two organizations for the same land border crossings varied substantially (more than 500,000), even though these figures were from the same source, EIC. Since there was no discussion on, or little use made of, relevant feedback information, neither Immigration nor Customs had identified these discrepancies. As mentioned in paragraph 15.47, the number of referrals was used as a basis for allocating EIC resources at ports of entry.

15.54 Feedback on the results of referrals would help identify areas requiring improvement at Customs and the need for changes to the operating policies and guidelines set out by Immigration. The lack of a performance measurement system on the immigration function at the PIL and the limited exchange of information between both organizations weaken management's control over program delivery.

15.55 EIC, in consultation with Customs, should pursue its development of a performance measurement system and implement means for an appropriate exchange of information to ensure that the operational and administrative responsibilities of both organizations regarding examination of individuals and their admission into Canada are properly discharged.

Response from EIC: *EIC has been aware of this issue for some time. In the fall of 1989, we began to develop a performance measurement system to measure PIL effectiveness as it relates to immigration. This is being done in co-operation with Customs and with the assistance of the field offices involved. EIC expects to have part of the system operational by the fall of 1990.*

Response from Customs: *Customs recognizes the necessity of evaluating our performance of the immigration inspection* *process. We will assist EIC in the development of an appropriate measurement system and a suitable information exchange process to assist us to properly discharge the immigration duties for which we are responsible.*

Security Screening

Some concerns regarding the results of security screening

15.56 Security screening of immigrants has been part of Canada's immigration process for the past 40 years. Its purpose is to identify and prevent the admission of persons who would constitute a threat to the security of the country or could endanger the lives or safety of persons in Canada and to deny the use of Canadian territory to persons who are likely to engage in criminal or security-related activity.

15.57 The role of the Canadian Security Intelligence Service (CSIS) in security screening of immigrants is to provide the Minister of Employment and Immigration with advice on inadmissible immigrant applicants, as defined in the Immigration Act. This ought to include examination of the applicant's past history, including criminal or security-related activities, and a probability assessment of the applicant's continued involvement in such activities, following admission into Canada.

15.58 CSIS security screens most of the prospective immigrants to Canada who have been pre-selected by visa officers, and immigration officers currently do the remainder. CSIS's security screening activities are largely dependent on information obtained through arrangements with foreign agencies around the world. For those applicants who indicate a period of residence in Canada, screening also includes criminal records checks by the RCMP.

15.59 The completeness of the information provided varies with the foreign agency involved and the extent of its co-operation with Canada. The response time for regular inquiries ranges from one to nine months.

15.60 For EIC and DEA, a serious constraint to refusing admission of certain applicants to Canada is the restriction on disclosure of information. Information from foreign agencies is often provided on condition that its nature and its source not be revealed. The release of such information could prejudice future co-operation. Another constraint to security screening is that some countries prohibit information being made available to foreign governments for immigration purposes.

EIC and DEA reject only a small percentage of immigrant applicants who are the subject of security concerns by the Canadian Security Intelligence Service.

15.61 At the conclusion of its screening activities, CSIS provides, through a detailed report called a brief, advice to EIC on those relatively small number of cases where it has serious security concerns.

15.62 CSIS prepares a "rejection brief" when it recommends refusal of the application because it believes the applicant would constitute a risk to Canada's national security if allowed to enter or to remain in the country. In those cases subject to review by the Security Intelligence Review Committee or the Federal Court of Canada (e.g. cases where the applicant is sponsored by a family member who is a permanent resident of Canada), the brief must also be approved by the Solicitor General before being sent to EIC. If CSIS is unable to gather sufficient or conclusive evidence to support a rejection brief, but still feels that the applicant may constitute a risk to Canada's national security, it submits an "information brief". In either case, the final decision to accept or refuse the application rests with EIC.

15.63 EIC and DEA reject only a small percentage of immigrant applicants who are the subject of CSIS security concerns. Based on information provided by EIC, Exhibit 15.2 illustrates the status and use of the rejection briefs submitted to EIC for the years 1987 to 1989. Exhibit 15.3 provides similar data on information briefs.

15.64 With regard to the above cases, the use of the officer's discretion for the denial of an immigrant visa abroad, rather than an outright rejection based on security grounds, is administratively easier. However, it does have serious drawbacks:

(a) EIC is not permitted to record its security concerns regarding these applicants in the information system that is used at ports of entry; and

(b) these applicants are not precluded from coming to Canada as visitors any time they wish.

15.65 The time taken by EIC to reach a decision varies widely. We noted that the majority of completed cases took from one to nine months. However, some took much longer In one case, EIC arrived at a final decision 23 months after receiving CSIS's advice

> ***While the purpose of security screening is to prevent the entry of persons posing a security risk, the majority of the pending security cases involve people already living in Canada.***

15.66 We noted that EIC has yet to reach a decision regarding 31 percent of the rejection briefs and 45 percent of the information briefs submitted by CSIS over the last three years. Sixteen percent of the cases go back to 1987.

Exhibit 15.2

STATUS OF CASES
For Rejection Briefs Issued
1987-89

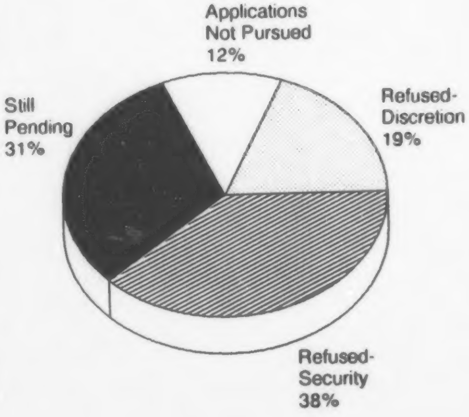
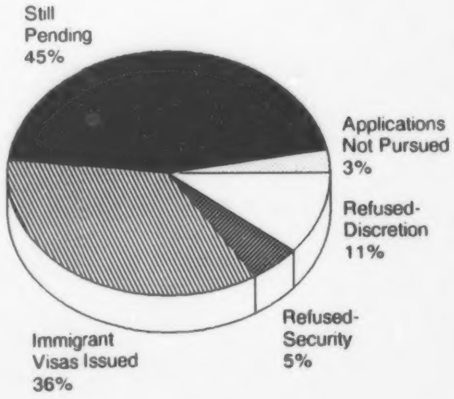


Exhibit 15.3

STATUS OF CASES
For Information Briefs Issued
1987-89



The majority of the pending security cases involve persons already living in Canada.

15.67 We also found evidence of poor operational control. We noted that EIC recommended the landing of four applicants and rejected three others before CSIS had completed its work and provided its advice to EIC. Furthermore, EIC had no record in its files of 10 applicants named in briefs (nine in 1989) submitted by CSIS. Finally, we noted that the Immigrant Data System Overseas (IDSO), an EIC recording system representing the results of the work of visa officers abroad, shows 21 rejections of applications apparently based on "failed security" in 1989. EIC headquarters was not aware of 20 of these cases. However, we found that the accuracy of the data in IDSO, with respect to these cases, is doubtful.

15.68 An outright rejection on security grounds or the refusal to issue an immigrant visa to an applicant does not mean that the applicant will not gain admittance to Canada through other means. We have documented cases of applicants who have made their way to Canada and claimed refugee status after being denied an immigrant visa (based on the visa officer's discretion) as a result of the security screening process. Their status in Canada has yet to be finalized. CSIS normally becomes aware of these cases only at the time the refugee makes an application for permanent resident status, sometimes a few years after his/her arrival in Canada. This is a serious concern because these persons are allowed to remain in Canada for extended periods without security screening.

15.69 The main reason that CSIS's briefs do not automatically result in the rejection of applicants by EIC is that, in many instances, the information is supplied in confidence by foreign agencies to CSIS. Consequently, the information could not or would not be disclosed in open court proceedings. This means that EIC is not able, in such cases, to satisfy an impartial tribunal that the individual represents a danger to society. In addition, EIC has stated that humanitarian or compassionate grounds are the overriding factors that make it accept some applicants rather than refuse the individuals on security grounds.

15.70 We noted, however, that Parliament has recognized the potential problems regarding the requirement for non-disclosure of CSIS's information. It has provided a special legislative means in the Immigration Act for denying admission or allowing removal from Canada of persons who are considered a security risk by CSIS or are suspected of being involved in organized criminal activity, yet have never actually been convicted of a serious offence.

15.71 In such instances, the Immigration Act provides for the issuance of a security certificate that will ultimately deny admission to, or allow the removal of, an individual from Canada. Security certificates require the approval of a Federal Court judge in the case of a non-resident, or of the Governor in Council in the case of a permanent resident. The certificate may be issued following a joint report by the Minister of Employment and Immigration and the Solicitor General when they are of the opinion, based on security or criminal intelligence reports, that a person should not be allowed to enter or to be in Canada. We have observed that few ministerial joint reports have been issued over the last four years, and only two security certificates were issued. However, one of the certificates cannot be enforced because the Federal Court of Appeal has ruled that the process followed constituted an unjustifiable violation of the subject's rights under the Charter. The government has applied for leave to appeal the decision to the Supreme Court of Canada.

Criminal checks are incomplete.

15.72 In almost all cases, CSIS's security screening addresses concerns related purely to national security. Criminal records, which consist of public data concerning convictions for punishable offenses, are not part of CSIS assessments.

15.73 Even though CSIS forwards criminal record information obtained from foreign agencies and the RCMP to visa officers, criminality risk assessments are not as comprehensive as they need to be. According to CSIS, foreign agencies generally provide it with criminal records but not criminal intelligence information, on the grounds that CSIS is not a police agency. This is particularly significant when assessing whether an applicant might engage in acts of violence that would endanger the lives or safety of persons in Canada.

15.74 CSIS and EIC are currently in the process of confirming that the responsibility for criminality assessments lies with EIC. This would allow EIC and DEA to deal directly with the RCMP and foreign agencies respectively. This issue is now under study by an interdepartmental committee set up to increase the quality and efficiency of the overseas screening process. Under this committee, new security screening profiles are now being tested at selected posts, and agreement-in-principle to significant changes in security screening responsibilities has been reached.

15.75 Given the number of serious concerns raised in this audit, we believe there is a need to evaluate whether one of the major objectives of the Immigration Act, which is to prevent the admission of people who may be harmful to the well-being of Canadian residents or the national security of Canada, is being achieved.

15.76 EIC should, in collaboration with CSIS and DEA, evaluate the effectiveness of the immigration security screening activities.

Response from EIC: *Since the summer of 1989, External Affairs, CSIS, RCMP and EIC have been working on a new Immigration Screening Project. The new screening system, developed in 1989, will focus resources on applicants who are the most likely to present a problem. The system was tested in four posts in early 1990 and the data is now being assessed.*

EIC now evaluates with CSIS the results of immigration security screening activities for cases identified by CSIS in screening briefs. A general evaluation of these activities will be done within the Interdepartmental Committee, which includes CSIS, Solicitor General and RCMP/External Affairs as needed.

Response from CSIS: *EIC, CSIS, External Affairs, and the RCMP launched a major study of the immigration security screening program in June 1989, with a view to streamlining the processing of applications from prospective immigrants.*

As noted in paragraph 15.74 above, the study has now progressed to the final stage of testing at selected posts, with a view to subsequent worldwide introduction. Assessment of the applicability of this new approach will include the effectiveness of certain immigration security screening activities, including demands placed on resources both overseas and domestically. The results of the selected post study are expected within the current fiscal year.

15.77 EIC should ensure that all relevant criminality information is gathered and assessed before permanent resident status is recommended.

Response from EIC: *Until 16 July 1990, Canada Immigration Centres (CICs) submitted immigration applications (IMM 8s) to the CSIS for security screening and co-ordination of Canadian Police Information Centre (CPIC) checks with the RCMP. As of 16 July 1990, CICs began to deal directly with the RCMP for in-Canada criminal checks. EIC does not routinely submit applicants for fingerprinting. CPIC checks are based on names and cover only convictions and charges in Canada. CSIS still co-ordinates overseas security and criminal trace checks. In co-operation with CSIS and the RCMP, EIC and External Affairs have pilot projects underway overseas using criminal and security profiles to allow visa officers to play a greater role in criminal and security screening including direct liaison with local police authorities where possible.*

Medical Screening

Inconsistent application of medical admissibility criteria

15.78 The Immigration and Overseas Health Services Division of Health and Welfare Canada is responsible for all medical screening activities in Canada. In addition, the Division provides medical policy, advice, and support to overseas medical officers on secondment to the Department of External Affairs.

15.79 We have concerns with the overall level of compliance with the legislated medical admissibility criteria. The Immigration Act stipulates that, to be medically admissible, visitors and immigrants must not pose a danger to public health or safety, and their admission must not create excessive demands on Canadian health and social services. Current procedures do not provide assurance that these criteria are met.

Is the Canadian public consistently being offered the level of protection that is contemplated under the Immigration Act?

15.80 The identification of danger to health and public safety is dependent upon the appropriateness and proper application of medical examination procedures and tests. According to the Medical Officer's Handbook, the highest category of risk is assigned to those individuals suffering from diseases believed to be readily communicable in Canada and with serious consequences on transmission. It was pointed out to us that medical examination procedures, however, do not require routine screening for hepatitis-B and AIDS (HIV infection) although evidence of these diseases normally renders individuals inadmissible to Canada. This is in contrast with the practice for tuberculosis where routine screening is the norm. This raises the question: Is the Canadian public consistently being offered the level of protection that is contemplated under the Act?

15.81 The Handbook contains no quantitative guidelines for the assessment of what is excessive demand on Canadian health and social services. It states that "it is not possible at present to establish quantitative guidelines based on statistical analysis of Canadian health and social care experience in order to differentiate the ... categories of the (excess demand) profile." The Handbook states that the main determinant in assessing excess demand is "general professional experience." The determination reached by this approach is, inevitably, very subjective.

15.82 HWC, in conjunction with EIC, should ensure compliance with the medical admissibility criteria stipulated in the Immigration Act; if this is not considered possible or realistic, it should recommend that the legislation be amended.

Response from HWC: *HWC medical officers as a matter of policy ensure that the medical inadmissibility criteria stipulated in the Immigration Act are complied with in all medical assessments.*

Medical Guidelines have been established and are reviewed by Immigration Review Board Consultants on a periodic basis.

EIC in co-operation with HWC have tasked a special Medical Inadmissibility Review Committee to review all medical conditions and related issues to ensure that the current Medical Guidelines for Inadmissibility are appropriate, just, and compatible with current medical opinion.

Response from EIC: *As a result of discussions with respect to this issue between EIC and HWC in 1989, a comprehensive review of the legislation, policies and procedures pertaining to the determination of medical inadmissibility was launched in the spring of 1990. The review is taking into consideration the concerns expressed by the Hawkes Committee and in the Boyer Report ("Equality for All") as well as the results of consultations* *with a variety of interested parties, including provincial governments, whose responsibility it is to provide health and social services, and non-governmental organizations representing a variety of people with an interest in this issue.*

Obligations of Transportation Companies

Transportation companies contest fines

15.83 The interdiction by carriers of inadmissible persons seeking to travel to Canada is an important measure to control illegal immigration because, once an individual reaches Canada, the removal process is slow, expensive, and complex.

15.84 The Immigration Act imposes on transportation companies the responsibility of ensuring that passengers have the required documents in their possession before they are brought to the port of entry into Canada. Where companies fail to meet this responsibility, the Act and Regulations provide for the imposition of fines and for the payment of detention and removal costs, within certain limits.

15.85 We examined the application of these policies to determine whether they were being applied strictly and consistently. We also assessed the extent to which their application was being monitored.

15.86 **Imposition of fines.** Before 1989, EIC was experiencing difficulties in collecting fines imposed on transportation companies. Some carriers consistently refused to pay the fines, and management control over the situation was weak.

15.87 In 1989, Immigration revised the fines structure and started litigation proceedings against carriers in order to collect monies owing to the Crown for penalties imposed after 1 July 1989.

15.88 The carriers object strongly to the payment of fines related to cases involving refugee claimants who are later found by the Immigration and Refugee Board to be real refugees. They contend that they should not be penalized for helping persons whom the Immigration Act was designed to help. This is an important consideration in view of the approval rate for refugee claimants, which exceeds 80 percent.

15.89 **Detention and removal costs are also contested.** Since January 1984, with some early exceptions, foreign air carrier members of the Association of Airline Representatives in Canada (AARC) have collectively ceased payment of detention costs assessed against them. Because of long processing delays and the volume of those being detained, the carriers felt, at that time, that the unlimited detention liability was unfair to their industry and that a 72-hour limitation would be more equitable. Consequently, the new immigration legislation limited the liability of transportation companies to the first 72 hours.

15.90 The files reviewed indicate that, as of April 1990, the unpaid amount exceeds $7.5 million. The collection of detention and removal costs is subject to a six-year limitation period in most provinces. Those amounts assessed in early 1984 have passed the deadline for collection.

15.91 EIC has only recently considered litigation against carriers in order to recover these monies owed the Crown. While 15 cases were turned over to the Department of Justice for legal action, proceedings are now suspended pending the outcome of settlement discussions between Immigration and the transportation companies.

15.92 **EIC should take timely action regarding detention and removal costs owing to the Crown.**

Response from EIC: *EIC has developed and implemented, with Justice, a process for negotiating settlement of the detention costs incurred by carriers prior to 31 December 1988. A more aggressive policy will be followed with respect to the collection of detention costs incurred since 1 January 1989, on the basis of the new legislation. Procedures are being* *developed to refer non-payment cases for prosecution. An automated system for processing violation reports will be implemented to ensure that we can commence prosecution within the statutory limitation period for these offenses.*

Entrepreneurs

Inconsistent application of terms and conditions of admission for entrepreneurs; controls not enforceable

15.93 One of the stated objectives of the Immigration Act is to foster a strong and viable economy and prosperity in all regions of Canada. The purpose of the Business Immigration Program is to help achieve this objective by promoting, encouraging, and facilitating the immigration of experienced business persons from abroad who will contribute to the country's economic development by applying their risk capital and knowledge to business ventures that create jobs for Canadians. The entrepreneurs category is one component of the Business Immigration Program.

15.94 Between January 1986 and December 1988, 6,938 entrepreneurs and 18,740 dependants were landed under the entrepreneurs component of the Business Immigration Program.

15.95 When selected as entrepreneurs, immigrants make a commitment to establish, purchase, or make a substantial investment in a business venture in Canada within a period of two years after the date of landing. This business venture should have the potential to contribute significantly to the Canadian economy by creating or maintaining employment for one or more Canadian citizens or permanent residents. The entrepreneurs must also participate actively in the management of that venture. EIC needs to establish controls to ensure that entrepreneurs comply with the requirements of the program.

15.96 While the nature of the commitment made by individuals when they are selected abroad calls for terms and conditions to be imposed on landing, an immigration officer has the discretionary authority not to impose any. Where they are imposed, we would have expected the officer to specify a time and place for the entrepreneur to furnish evidence of compliance.

Controls on immigrant entrepreneurs are not enforceable.

15.97 During the first nine months of 1989, 2,345 entrepreneurs became permanent residents. Our audit revealed that only 60 percent of these entrepreneurs were landed with terms and conditions. Furthermore, less than half of the 60 percent were required to report to a CIC to provide evidence of compliance with conditions imposed. Given these statistics, we believe that control was not exercised.

15.98 Until the fall of 1989, there were no cases of entrepreneurs referred to inquiry for breach of conditions.

15.99 Moreover, there are no terms and conditions attached to the landing of entrepreneurs' dependants. This could limit the effect of enforcement measures against an entrepreneur who does not comply with the terms and conditions. Should a removal be warranted, the dependants could remain in Canada and sponsor the entrepreneur as a family-class immigrant. The application of the policy related to humanitarian and compassionate considerations would also prevent removal in such cases. Consequently, control is impossible unless the program is redesigned to make dependants subject to the same treatment as the entrepreneur concerned.

15.100 During the audit, EIC began to develop a new monitoring system for entrepreneurs, and some cases are now being referred to inquiry. However, this does not address the issue of constraints to removal.

15.101 EIC should clearly state control objectives for the entrepreneurs category, establish corresponding efficient and effective control mechanisms, and apply these mechanisms consistently.

Response from EIC: *We agree. For the coming months EIC plans to implement the following procedures:*

- *impose terms and conditions on all entrepreneurs to ensure a consistent application;*
- *in all cases indicate where and when entrepreneurs must report to establish that they have complied with the terms and conditions of their landing.*

The application of existing control mechanisms against entrepreneurs has resulted in one deportation order being issued. An additional inquiry is underway, and 15 further inquiries are being considered.

Enforcement Activities

Integrity of immigration control affected by exceptions

15.102 Enforcement has as its objective the detection and, where appropriate, the removal from Canada of persons in contravention of the Immigration Act and Regulations. Enforcement measures are generally initiated either by means of a report generated at a port of entry or inland or by an arrest. The enforcement target population includes: persons inadmissible to Canada; and foreign students, temporary workers, businessmen, tourists, and landed immigrants who have violated the Act. Key features in enforcement activities in Canada are investigations, quasi-judicial inquiries, detentions, and removals.

15.103 Before the 1989 amendments to the Act, the enforcement programs were in a state of near collapse. The refugee status determination backlogs made it advantageous for persons charged or arrested under the provisions of the Act to make refugee claims. Ninety percent of all immigration inquiries were related to refugee claims. Most claimants, including those whose identity could not be verified, were released into the general population while awaiting a determination of their case, and virtually all of them were certain to remain in Canada for three or more years, whatever the merits of their claim. The fact that these persons could not be removed until their case had been dealt with by the refugee status determination process meant that enforcement action could not be carried out.

15.104 The enforcement function also suffered from the gradual reductions in resources devoted to the Immigration Program. In addition, Immigration priorities were the processing of refugee claims, in-Canada landings, and sponsorship applications.

15.105 The 1989 legislation offered the possibility of real improvements in the efficiency and effectiveness of enforcement activities. It was widely expected that inadmissible persons who had no legitimate claim to refugee status would quickly be removed. This assumption was the basis for the design and implementation of a new strategy in relation to investigations, detentions, and removals.

Enforcement decisions to remove persons from Canada have not been carried out or their effect has been cancelled in a majority of cases.

15.106 This strategy anticipated that the volume of refugee-related enforcement activities would be greatly reduced. For visitors and immigrants, the planning was for more investigations, including the arrest and reporting to immigration inquiry of criminal residents and non-residents, more detention of persons awaiting removal, and more numerous and expeditious removals. The result would be better protection of Canadian society.

15.107 While significant reforms have been achieved, the above expectations did not materialize. Improvements in the management of the enforcement process are negated for the most part by an inability to carry out enforcement actions or by the cancellation of their effect. The immigration environment precludes timely, effective action; the refugee determination process still monopolizes enforcement resources while pro forma activities, i.e. activities done for the sake of form, reduce efficiency.

Investigations

The rebuilding of the investigation function is under way

15.108 In general, the investigation function consists of the detection of persons who are in contravention of the Immigration Act and who must be arrested, reported and, in some cases, removed. EIC's investigations are administrative in nature and are held to determine if enforcement action against an immigrant or visitor should be undertaken. Investigations by police, RCMP included, are concerned with offenses where prosecution is normally envisaged.

15.109 As per an interdepartmental agreement, EIC refers cases involving apparent offenses under the Immigration Act to the RCMP for investigation and possible prosecution. The RCMP places its highest priority on investigations relating to organized smugglers of immigrants and illegal immigration consultants. However, a large part of its investigation time on immigration matters is still spent responding to requests from EIC and the public. These requests have on occasion developed into major operations.

15.110 In 1988, EIC recognized that there were serious shortcomings in its area of investigations. The lack of personnel made co-operation among enforcement units within EIC ineffective, and relationships with other enforcement groups in and outside Canada had deteriorated. There was a general inability to carry out enforcement actions. There was no effective guidance from national headquarters; information systems were inadequate, unreliable, and in some cases, misleading. Backlogs in investigations of criminal actions by immigrants or visitors exceeded 10,000 cases in the largest region. Morale of immigration investigators was poor, and often no response was made to tips from the public.

15.111 During 1989, the investigation function in EIC underwent massive change. New enforcement units were established. This heightened the profile of the function and improved the morale of enforcement staff. Resources allocated to investigations became less vulnerable to arbitrary reassignment to other sectors, and greater support was ensured for the rebuilding of investigation expertise. The authorization of over 100 person-years for investigator positions provided indication to staff that their work was considered important. The new resources were expected to enable investigations to take a more pro-active approach to enforcement and to neglected areas such as criminality, self-reported infractions, and relationships with other organizations involved in immigration enforcement.

15.112 A number of other management actions were taken, both at national headquarters and in the regions to rebuild the investigation function. At headquarters, groups dedicated to enforcement policy and operations were established to provide leadership and functional direction to the investigation function. An investigator's guide was produced. A national investigations working group was formed to identify problems and recommend solutions. New equipment for investigators was procured, and a review of problems with information support systems for investigators was launched. Headquarters is in the process of developing its monitoring capability over investigations. The control over the caseload is being improved through the implementation of a computerized case management system in the large regions.

15.113 EIC has established priorities for investigation activities. In descending order, they are: investigating cases of criminality involving visitors and permanent residents; searching for refugee claimants who fail to show up for their inquiry or removal; following up on tips received from the public; dealing with self-reported cases; and investigating overstays, illegal workers and other illegal migrants.

15.114 These initiatives testify to serious efforts by management to improve the quality and results of investigations. However, significant improvements still need to be made.

More efficient investigations needed

15.115 The situation in relation to backlogs of investigations is still serious. In November of 1989, one district listed over 1,500 cases involving allegations of serious crimes that required investigation under the Act. EIC officials have estimated that for about 20 percent of these cases, the investigation would be directed to Immigration inquiry and could result in removal of the persons from Canada. The district concerned had not investigated any case of this type, other than on an exception basis, for a period of two years. About 400 new cases per month were being added to the investigations backlog.

15.116 Direct access to the Canadian Police Information Centre (CPIC) is needed. We noted from departmental files that extensive delays are experienced in obtaining information through CPIC. If EIC had its own CPIC terminals, the investigator's ability to obtain information and to monitor cases involving allegations of serious criminality would be greatly enhanced. Under the present system, getting information through CPIC can take four months or more. EIC has never applied to get direct access to CPIC. We have been advised by the RCMP that direct access could be obtained, and EIC is currently preparing an application.

15.117 The efficiency and operational effectiveness of immigration controls depend largely on the ability of officials to make positive identifications of individuals. The multiplicity of originating countries and the sophistication of modern technology make it difficult to recognize false documentation when it is used.

15.118 Investigations and enforcement actions such as removals are also affected by difficulties in securing positive identification of individuals.

15.119 The above difficulties reduce the efficiency and effectiveness of immigration controls and enforcement. Fingerprinting all visa applicants and refugee claimants would reduce the cost of the program and would be a major step in helping EIC achieve its control and enforcement objectives. It would also improve control over citizenship applicants as reported in chapter 28 (see paragraphs 28.74 and 28.75).

15.120 EIC should consider the necessity of fingerprinting all visa applicants and refugees claimants.

Response from EIC: *EIC will carefully consider this recommendation taking into account possible delays and costs. Fingerprinting of refugee claimants in the backlog has been underway since the spring of 1990 without undue use of resources.*

Removals

The majority of orders for removal of refugee claimants has not been carried out

15.121 Deterrence results from effective enforcement programs. The timely enforcement of penalties for lawbreakers discourages others who might be tempted to abuse the system. In Immigration, the credibility of the enforcement program rests mainly on whether and how quickly removals can be effected.

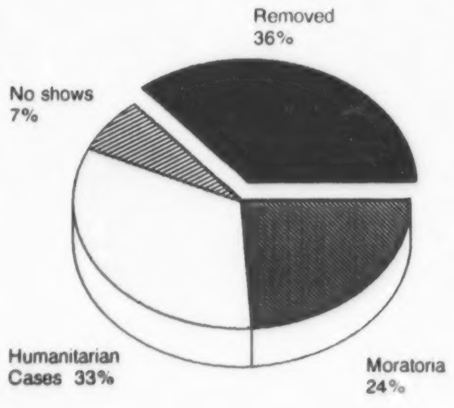
15.122 To ensure due process, the Act has established judicial procedures for removals. Denial of admission to or removal from Canada can be ordered only by an independent adjudicator after a quasi-judicial hearing of the Minister's representative and the person concerned. Most removal orders may be appealed to the Federal Court.

15.123 We found that rejected refugee claimants are less likely to be removed than non-claimants. In a sample of 217 refugee claimants who were subject to an enforceable removal order in the Quebec Region, we found that 64 percent had not been removed. Exhibit 15.4 illustrates the proportion of those removed and the reasons for delaying removals or cancelling their effect in the other cases. During the same period, only 20 percent of the 313 enforceable removal orders issued to persons who were not refugee claimants were not carried out.

15.124 Our sample indicated that 24 percent of removal orders affecting refugee claimants in 1989 were temporarily suspended for claimants from countries experiencing conditions of war or civil strife (i.e. through moratoria). Such suspensions and other delays have, in the past, provided strong assurance of non-removal to some groups on the basis of nationality.

Exhibit 15.4

ENFORCEABLE REMOVAL ORDERS
(Refugee Claimants : 217 Cases)



15.125 In another sample of 103 cases appealed to the Federal Court and denied, we found that 24 individuals, less than 25 percent, had been removed.

15.126 The cancellation of enforcement actions in so many cases has a negative impact on the morale of EIC staff. Those interviewed have consistently stated that while they personally try to maintain a level of professionalism in carrying out their functions, this situation does affect their enthusiasm for their work.

15.127 Although the resources dedicated to enforcement are substantial and growing, we question the economy, efficiency, and operational effectiveness of a process where the carrying out of enforcement actions (removals) is the exception rather than the rule.

15.128 EIC should review its enforcement strategy in order to improve the cost-effectiveness of the enforcement process.

Response from EIC: *EIC regularly reviews and updates its enforcement strategy. A major review resulted, in 1988/89, in Treasury Board allocating additional resources for the function. A senior management steering committee reviews on a quarterly basis the use of enforcement resources.*

Minister's Permits

The use of Minister's permits creates inefficiencies

15.129 The Minister's permit is an instrument for the discretionary granting of temporary immigrant status to a person who has violated the provisions of the Immigration Act or who is inadmissible to Canada. Immigration policy specifies that this discretion may be exercised when warranted on humanitarian or compassionate grounds or in the national interest.

15.130 The power to issue a Minister's permit is delegated by the Minister to managers of Canada Immigration Centres (CICs) and to immigration program managers abroad. To improve the speed of service, this authority was further delegated to EIC supervisors as of 1 April 1990.

15.131 From January to November 1989, according to EIC statistics, 33,400 Minister's permits were issued or renewed. Permits are issued to, among others, persons who have not obtained visas, persons who have committed offenses in other countries which, if committed in Canada, would be punishable under an Act of Parliament, visitors who appear at Immigration Centres after their visas have expired, persons who are ill and come to Canada for treatment, and persons who have lost their status, through overstaying or otherwise, and applied for landing in Canada.

15.132 Control activities and investigations identify many cases involving infractions by visitors where removal from Canada is not warranted. To allow these persons to remain in Canada and to comply with the legislation, their cases must be reported in writing to a senior immigration officer. These individuals are not directed to immigration inquiry by the senior immigration officer. However, they have violated the Immigration Act and a Minister's permit must be issued for them to remain in Canada. The process of legitimizing the status of these individuals involves perfunctory or pro forma activities.

15.133 One example of such pro forma activities is the following:

> A temporary foreign worker comes one day late to a Canada Immigration Centre to obtain an extension to his employment authorization. The immigration officer is faced with an observed infraction to the Immigration Act, which must be the subject of a written report under section 27 of the Act. The officer will recommend to a senior immigration officer that this infraction not be referred to inquiry, as the circumstances would not warrant removal of the person from Canada. Having received concurrence and the required approval of a supervisor, the officer will legalize the status of the individual through the issuance of a second document, a Minister's permit. Finally, a third document, a new employment authorization, will be issued.

15.134 Such procedures cause the expenditure of valuable officers' time to obtain the supporting data, prepare written reports, and issue the appropriate documents. EIC estimated that as much as 30 percent of CIC staff time is expended on pro forma activities. In this context, Minister's permits have become an administrative tool of convenience.

Activities done for the sake of form have a serious impact on efficiency.

15.135 Initially, a Minister's permit was seen as being administratively the most efficient method of permitting the entry of prohibited immigrants and visitors when this seemed desirable. The Act specifically precludes the use of Minister's permits to cancel a removal order. However, a procedure nicknamed the Buffalo Shuffle is sometimes used to circumvent this restriction. While in strictly legal terms this procedure is considered valid, Minister's permits were not intended to cancel the effect of a removal order, certainly not through the inefficient process outlined below.

15.136 For example, before effecting the removal of a person whose refugee claim was not recognized by the IRB, a post-claim review is done by EIC. If the review decision allows an application for landing in Canada, the removal order must first be carried out through the Buffalo Shuffle, which generally follows the steps described below.

- National headquarters advises the appropriate inland CIC of the decision.
- The individual is requested to come to the CIC, where the decision and procedures are explained.
- The shuffle is initiated at the convenience of the individual.

- The inland CIC sends a letter to the CIC at a border crossing to advise it that the entry of this individual is authorized.

- A letter is sent to the American immigration authorities advising them that the person will be readmitted into Canada through the issuance of a Minister's permit.

- An appointment is requested from the closest Canadian visa office in the United States with instructions to issue a Minister's permit.

- The individual reports to the visa office on the agreed appointment date, picks up the Minister's permit, and returns to Canada.

- The individual makes an appointment with an immigration officer at an inland CIC to begin the procedures to become a permanent resident.

15.137 In cases where the person returns to Canada immediately after admission to the United States, the removal process lasts only a few minutes and is called a "flag pole".

15.138 This procedure is further complicated by the fact that American authorities demand, on occasion, the use of a Canadian escort in cases where the subject is considered by them to be dangerous, even though the escorting officer has no legal authority while in the United States.

15.139 A program evaluation in 1987 of inland control and enforcement identified pro forma activities as a factor impeding the efficiency and effectiveness of inland enforcement activities. The evaluation recommended amendment of the Act to remove the sections dealing with infractions that are not being enforced. To date, the situation remains unchanged.

15.140 Since 1980, more than 80 percent of the Minister's permits issued and renewed were for persons seeking entry to Canada as members of a class designated as "other inadmissible persons" under section 19 (2) d) of the Act. This latter category does not include persons inadmissible for medical, security, or criminal reasons, but those inadmissible because they are not well documented. Either they do not have a visa, a passport, or an employment or student authorization, or they are applying for landing in Canada.

15.141 In our 1982 report we recommended that national headquarters establish systems for monitoring and analysing data on the issue and renewal of Minister's permits. EIC concurred with the recommendation and established a coding system to provide more detailed information on Minister's permit holders. In our 1985 follow-up to the 1982 audit, EIC indicated that it would monitor the delivery of Minister's permits.

15.142 While EIC has improved its information base, it still does not use it to monitor the situation.

15.143 EIC should:

- **consider more efficient means of legitimizing, where appropriate, the status of individuals involved in infractions to the Act; and**

- **take steps to monitor and analyse the use of Minister's permits.**

Response from EIC: *EIC will consider reviewing the existing process. However, any more economical means may require a mechanism to override or dispense with a removal order without the individual leaving Canada. This is not desirable. Any such mechanism, other than the existing appeal process, seriously risks undermining the enforcement process. The finality of the removal order must remain. As the permit itself witnesses, it is very easy for a special remedy to become the norm. The benefits realized in the relatively small number of "shuffle" cases where this would be applied do not justify the risk of damage to the basic enforcement process.*

EIC will continue to monitor all permits issued under certain categories (principally related to security) as we have done for the past two *years. EIC will analyse the data received through the monitoring of Minister's permits which was put in place in the Spring of 1990. In consultation with the Regions, we will study the apparent practice of routinely issuing permits for minor violations where there are no humanitarian or compassionate grounds not to direct an inquiry.*

Field Operations Support System

Access to the Field Operations Support System and quality of data need to be improved

15.144 Information is the cornerstone of control systems and enforcement programs. Their quality, timeliness, and operational effectiveness depend on the accuracy, reliability, and completeness of information. An important source of information for those who carry out control and enforcement work in immigration is the computerized Field Operations Support System (FOSS).

Removals may last only a few minutes when the "flagpole" process is used (see paragraph 15.137).

15.145 Our work in the areas of employment authorizations, Minister's permits, and security screening indicated that FOSS data were incomplete, unreliable, and sometimes misleading, and consequently did not meet the operational requirements for control and enforcement.

15.146 Our examination established that these deficiencies are the result of improper information entry procedures, terminal sharing among employees, and inability to access the FOSS information because of network difficulties. Our review of files and interviews with departmental officials demonstrated that management is aware of the problems and has considered the impacts, but has as yet been only partially successful in resolving them.

15.147 Some CICs visited had established logbooks at the request of management to record systems downtime and availability. But CIC staff told us that because of frequent problems and because national headquarters was slow in resolving technical difficulties, the logbooks had fallen into disuse and were eventually abandoned.

15.148 At the time of the audit, EIC was attempting to improve and upgrade its communications network facilities. In view of the increased transaction volumes expected from other users, this is particularly important and would help to improve and facilitate immigration control and enforcement.

15.149 Our examination also revealed that there was substantial discontent with the implementation of a management information module, which often produced erroneous results about CIC processing volumes. Regional offices were concerned because these volumes are intended for use in the allocation of resources. This has led to much lost time and energy in the regions.

15.150 FOSS as a record-keeper of issued documents is considered good and essential by its users in delivering the Immigration Program. It is, however, ineffective when aggregate information is needed by centres or regions on cases processed and has very little or no built-in controls for follow-up of terms and conditions of stay.

15.151 Almost all Immigration staff interviewed by us indicated that the unreliability of access to FOSS and its contents affect the quality of their work. In part because of these shortcomings, some CICs have implemented local systems on micro-computer networks to provide them with management and operational information. We examined information from one such system in the Quebec region and, because of its closeness to the users, we found the data to be highly accurate, reliable, and useful for generating management information. Some of this information duplicates FOSS data, which is possibly why staff have not kept the FOSS system up to date.

15.152 EIC should upgrade the Field Operations Support System to meet the operational needs of its centres.

Response from EIC: *The FOSS is a system that is continually evolving. In recent years, service to the public has been improved by implementing and expanding FOSS, with the inclusion of full document entry and more equipment.*

The communications network has been upgraded considerably since the audit observations were made. Approval to install a new communications network, CEINET, is expected soon and pilot projects combining voice and data systems are well underway.

EIC has created a Technology Working Group to provide a forum for regional and local office staff to advise national headquarters of changes in operational needs. A training data base and on-line help screens have recently been made available to all staff in an effort to improve system use and data entry. All these activities have alleviated previous difficulties in accessing the FOSS systems.

16

Consumer and Corporate Affairs

Consumer and Corporate Affairs

Main Points

16.1 The Department of Consumer and Corporate Affairs is responsible for a number of federal statutes that are designed to promote the fair and efficient operation of the marketplace in Canada. During our audit we examined the implementation of six major Acts administered by the Department (paragraphs 16.7 and 16.8).

16.2 We found that the Bankruptcy Act is outdated. The current Act was enacted in 1949 and last amended in 1966. There have been numerous calls for revising the legislation. The Bankruptcy Branch has adopted administrative remedies in the absence of legislative direction. In our opinion, it is important that changes to the Act be considered (16.14 to 16.23).

16.3 In other areas, we found that the service levels in a number of key departmental programs have decreased over the past years. For example, it now takes about 30 percent longer to issue a patent than it did five years ago (43 months versus 33) (16.26 to 16.30). The proportion of misleading advertising complaints of substance that are investigated has declined from 22 to eight percent over 10 years (16.72 to 16.76). And the anticipated time between the periodic inspections of weighing and measuring devices varied from two to nine or more years in certain areas of the country (16.93 to 16.95).

16.4 We found that management practices in parts of the inspection programs for weighing and measuring devices and for electricity and gas meters needed to be improved. Management had not fully clarified its obligations under the legislation (16.88 to 16.92 and 16.109 to 16.112), some inspection activities were poorly targeted (16.97 to 16.101), and meter inspectors were not provided with adequate guidance on how to conduct certain inspections (16.113 to 16.116).

16.5 The Bureau of Competition Policy is developing public guidelines on the merger review process under the Competition Act. We found that the Bureau needed to develop procedures for selecting mergers for detailed examination. It also needed to provide staff with complete procedures for conducting these examinations (16.57 to 16.68).

16.6 The accountability information submitted by the Department to Parliament needed improvement in terms of the accuracy of some of the information presented and the disclosure of program areas that are encountering problems (16.139 to 16.142).

Table of Contents

Paragraph

Audit Scope 16.7

Background 16.8

Organizational Development Initiatives 16.11

Observations and Recommendations

Bureau of Corporate Affairs and Legislative Policy 16.13

Bankruptcy Branch - Coping with Outdated Legislation 16.14
Administrative remedies in the absence of legislative direction (16.20)

Patent Office 16.24
Decrease in service levels (16.26)
Service levels unlikely to improve (16.31)
Lack of quality assurance in the patent examination process (16.34)
Poor screening of requests under the Patent Information Exploitation Program (16.38)

Trademarks Office 16.42
Delays in the trademarks appeals process (16.45)
Ongoing requirements for overtime (16.46)

Corporations Directorate 16.48
Problems maintaining currency and testing the accuracy of files (16.49)

Protection of Information 16.53
Information not adequately protected (16.53)

Bureau of Competition Policy 16.56

Merger Branch 16.57
Commitment to timely release of merger guidelines (16.58)
Procedures needed for selecting mergers for review (16.59)
Need for procedures in the merger review process (16.63)

Marketing Practices Branch 16.69
Declining number of complaints investigated (16.72)
Increasing cost of investigations (16.77)
Weaknesses in focussing effort on cases of greatest impact (16.79)

Administrative Practices 16.83
Non-compliance with order in council contracting rates (16.83)

Table of Contents (cont'd)

Paragraph

Bureau of Consumer Affairs 16.85

Legal Metrology Branch 16.86

Legal Metrology - Weights and Measures Sub-activity 16.87
Weaknesses in regulations (16.88)
Frequency of inspections undefined (16.93)
Selective inspections poorly targeted (16.97)
Need to assess the pilot program before further implementation (16.102)

Legal Metrology - Electricity and Gas Sub-activity 16.107
Failure to clarify statutory requirements (16.109)
Lack of complete inspection procedures (16.113)
Accreditation target will not be met (16.117)
Failure to report delay (16.121)

Fees for Departmental Services 16.123
Lack of procedures to determine full cost and fees (16.126)

Internal Audit and Performance Measurement 16.128
Gaps in coverage of internal audit and program evaluation (16.129)

Reporting to Parliament 16.134
The Estimates Part III omits important performance information (16.135)
Inaccuracies in the Estimates Part III (16.139)

Exhibits

16.1 Activity Structure, Budget (1989/90) and Programs Audited
16.2 The Bankruptcy Act - Attempts to Reform
16.3 Canadian Patent Office - Workload Trends
16.4 Competition Act - Factors for Assessing Mergers
16.5 Marketing Practices - Enforcement Activity
16.6 Revenues - Corporations, Patents and Trademarks

Consumer and Corporate Affairs

Audit Scope

16.7 We examined the implementation and administration of six major Acts. These were the Bankruptcy Act, the Canadian Business Corporations Act, the Patent Act, the Competition Act, the Weights and Measures Act and the Electricity and Gas Inspection Act. We also looked at the administration of the Trademarks Act. These Acts are administered by the following sub-activities: Bankruptcy, Corporations, Intellectual Property, Merger Review, Marketing Practices, Electricity and Gas, and Weights and Measures. The audit examined the systems, procedures and management practices in place.

We looked at how Consumer and Corporate Affairs managed its responsibilities under six major Acts.

Background

16.8 The Department of Consumer and Corporate Affairs was established in 1967 by the Consumer and Corporate Affairs Act, which brought together several programs governing and regulating the marketplace. In general, the role of the Department is to promote the fair and efficient operation of the marketplace in Canada. This mission is realized through the Department's responsibility for federal legislation that forms part of the legal framework for market transactions in Canada. It is responsible, or shares responsibility, for the administration of 66 statutes and 22 Acts and Regulations enforced on behalf of provinces. The purpose of many of these Acts is to define broad rules for marketplace behaviour that apply across all, or most, sectors of the economy. The legislation defines the nature and extent of the Department's responsibilities and delegates the authority required to fulfil them. A number of the senior managers in the Department are appointed by order in council pursuant to these Acts.

16.9 Since the last audit by our Office in 1982, there have been six ministers and four deputy ministers. The Department is organized into four bureaus: Bureau of Competition Policy, Bureau of Corporate Affairs and Legislative Policy, Bureau of Consumer Affairs, and Bureau of Corporate Policy and Strategic Planning. (See Exhibit 16.1.)

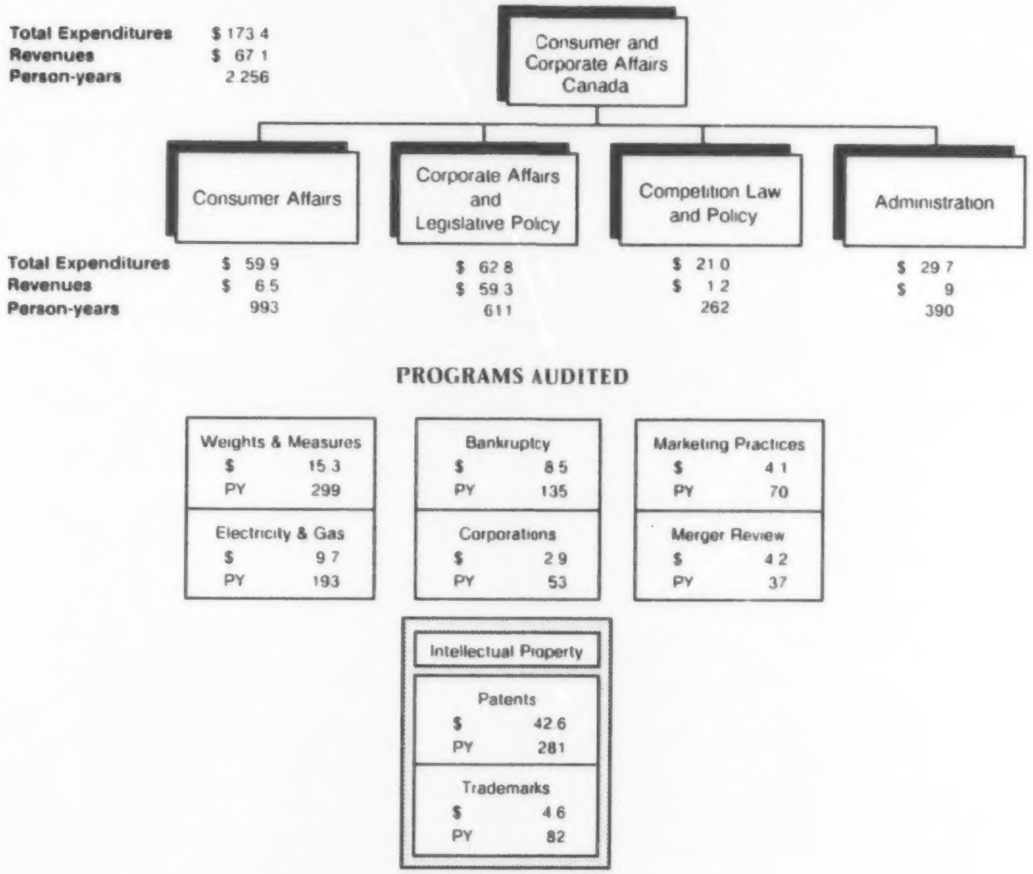
16.10 The 1989/90 forecast expenditures for the Department are $173 million as stated in Part III of the 1990/91 Estimates. Approximately 62 percent of this expenditure is staff salaries for the 2,256 employees in headquarters and the five regional and 22 district offices. Revenues are realized from many of the activities of the Department. In 1989/90, $67 million is expected to be collected and forwarded to the Consolidated Revenue Fund.

Organizational Development Initiatives

16.11 The Department is being challenged to meet growing demands for services with its existing resources. In response, senior management initiated, in 1987, a process of consultation and discussion with staff to identify ways of dealing with the gap between growing demands and limited resources. This initiative is intended to increase productivity and create an environment for change. It also aims to commit all staff to the need for and value of on-going performance improvement.

Exhibit 16.1

ACTIVITY STRUCTURE, BUDGET (1989/90)
($000s)


Total Expenditures $ 173.4
Revenues $ 67.1
Person-years 2 256
Consumer and Corporate Affairs Canada
Consumer Affairs
Corporate Affairs and Legislative Policy
Competition Law and Policy
Administration
Total Expenditures
Revenues
Person-years
$ 59.9
$ 6.5
993
$ 62.8
$ 59.3
611
$ 21.0
$ 1.2
262
$ 29.7
$ .9
390
PROGRAMS AUDITED
Weights & Measures $ 15.3 PY 299
Electricity & Gas $ 9.7 PY 193
Bankruptcy $ 8.5 PY 135
Corporations $ 2.9 PY 53
Marketing Practices $ 4.1 PY 70
Merger Review $ 4.2 PY 37
Intellectual Property
Patents $ 42.6 PY 281
Trademarks $ 4.6 PY 82

SOURCE: *CCA 1990/91 Estimates. Part III - Forecasts 1989/90*

NOTE: *Expenditure figure for Patents includes $25 million in annual provincial transfer payments*

16.12 The process was under way at the time of our audit. It had moved from a problem identification phase to the point of integrating revised mission and strategies into the departmental planning process. Since this implementation had just begun, it would have been premature to include it for examination in our audit.

Observations and Recommendations

Bureau of Corporate Affairs and Legislative Policy

16.13 The objective of the Bureau of Corporate Affairs and Legislative Policy is to provide an institutional framework for the orderly conduct of business, the effective operation of an intellectual property system, the registration of lobbyists and the preparation of proposals for the revision of departmental statutes.

Bankruptcy Branch - Coping with Outdated Legislation

16.14 The Bankruptcy Act defines and limits the federal role in the insolvency system. It provides for the fair and orderly distribution of a bankrupt's property to creditors and permits a debtor to be discharged from debt. The present Act came into effect in 1949, at a time when there were few consumer bankruptcies. It was designed to address commercial bankruptcy by setting out priorities for the distribution of assets to creditors.

16.15 Bankruptcy is a legal process performed under the Act when individuals or companies cannot pay their debts. A trustee is an individual licensed to administer the bankruptcy. The trustee takes over all assets, liquidates them, and distributes the proceeds to the creditors.

16.16 The Act established the Office of the Superintendent to regulate the licensing and supervision of trustees and to investigate the conduct of bankrupts. It also distributes information on bankruptcy matters. The legislation provides for the appointment of official receivers, whose task it is to receive the filing of the bankruptcy documents, chair meetings of creditors, and interview all bankrupts.

16.17 The Act was amended in 1966, increasing the powers of the Superintendent to oversee the bankruptcy process and providing for a procedure for handling bankruptcies through the court system in a summary manner. This process was designed to facilitate access to the bankruptcy system for estates with free assets of less than $500, most frequently those of consumers.

16.18 Over the past two decades, several federal government studies have called for extensive revisions to the Bankruptcy Act. As shown in Exhibit 16.2, six bills were presented to Parliament that died on the order paper. One of the reform objectives has been to raise the priority that the Act assigns to the claims of the employees of bankrupt firms. Also identified by these studies as gaps in the current legislation are the limited protection that it affords self-employed persons, whether incorporated or not, and the need for better commercial reorganization measures.

16.19 Outdated legislation, coupled with the growth in consumer credit and indebtedness, has placed pressures on the insolvency system. As noted in these studies, there are signs of the declining relevance of the Act. There is an increasing use by creditors of remedies that are outside the control of the Act. Lenders have developed extensive security instruments that provide for private receivership arrangements outside the supervision of the Superintendent.

The Bankruptcy Act is outdated.

16.20 **Administrative remedies in the absence of legislative direction.** The management of the Department is provided with statutory direction by Parliament and regulatory direction by the Governor in Council on how programs should be implemented. The current Bankruptcy Act does not provide specific legislative direction in some important areas. For example, it does not provide for ways of dealing with consumer indebtedness other than through bankruptcy or a proposal accepted by the creditors. Where the legislation can no longer be efficiently or effectively carried out, we would expect that corrective action would be recommended to the Minister and that Parliament would be informed.

16.21 The Superintendent has attempted to cope administratively with consumer bankruptcy by creating the Bankruptcy Assistance Program

Exhibit 16.2

THE BANKRUPTCY ACT ATTEMPTS TO REFORM

1949 Current Bankruptcy Act enacted.
1966 Bankruptcy Act amended.

1970 — Tasse Committee Report.
1975 — First Bill (C-60) to the House of Commons.
1978 — Second Bill (S-11) to the Senate.
1979 — Third Bill (S-14) to the Senate.
1979 — Fourth Bill (S-9) to the Senate.
1980 — Fifth Bill (C-12) to the House of Commons.
1981 — Landry Committee Report.
1984 — Sixth Bill (C-17) to the House of Commons.
1986 — Colter Committee Report.

(BAP). Established by a directive of the Superintendent, its purpose is to ensure access by indigent persons to the services of a trustee-in-bankruptcy. Through the BAP, the Superintendent meets the immediate need of providing access to individuals previously excluded from the insolvency system. This program, however, cannot respond to broader issues of consumer indebtedness. For example, explicit legislative direction is required to institute alternatives to consumer bankruptcy and different approaches to debtor rehabilitation, such as credit counselling. One sign that a different approach may be required is the increasing number of repeat consumer bankruptcies.

16.22 Certain requirements under the Act create unnecessary costs. For example, the current legislation requires that bankruptcies be discharged through the courts, a complex and protracted procedure. There is a need for simpler or alternative ways of dealing with minimum asset bankruptcies.

16.23 The Department is currently preparing proposed amendments to the Bankruptcy Act. In our opinion, it is important that changes to the Act be considered.

Patent Office

16.24 The Patent Office grants patents and disseminates information related to these patents. Patent applications are examined to determine if the subject matter is novel, if the invention is useful, and if sufficient inventive ingenuity is evident. A search of existing patents is done to determine if the invention is new.

16.25 In 92 percent of the cases, applications are from outside Canada and searches are in progress or have already been done by foreign patent offices. The Office requests that the applicant submit all information relating to the claims, including the searches done elsewhere. The patent application examiners use the results of these searches to aid their own. With the new Patent Act of 1987, the patent application process was changed from a "first-to-invent system" to a "first-to-file system." Under the first-to-file system, the patent is granted to the first applicant who files for a patent on an invention rather than to the applicant who invented it first. The change in legislation has not significantly affected the nature of patent examinations but has changed the rules and procedures for granting a patent and making patent applications public.

16.26 **Decrease in service levels.** Management is responsible for defining levels of service to meet its obligations under the Act and managing its programs to optimize efficiency and effectiveness. However, we found that service levels of the Patent Office have declined substantially since 1983/84.

16.27 In 1983/84, it took on average 33 months for a patent application to be processed. It now takes 43 months. The

Adding to the backlog. Each bin represents 100 patent applications (see paragraph 16.28)

corresponding American turnaround time is 21 months. One of the reasons why the Canadian processing time will always be somewhat longer than the American average is that the Canadian Patent Office has decided to rely on the results of foreign searches.

Six years ago, it took on average 33 months to obtain a patent. It now takes 43 months.

16.28 Between 1983/84 and 1989/90, the number of patent applications received by the Office rose from 25,900 to 34,700. Over the same period, the number of applications processed annually has dropped by 25 percent, from 25,100 to 19,200. This has led to a growing gap between the number of applications received in a year and the number processed. As a result, in 1989/90 the Office had 111,600 pending applications, compared to 56,900 in 1983/84. (See Exhibit 16.3.)

16.29 Over the same period, the number of examiners remained virtually the same. In 1983/84, the Office had 86 examiners; in 1989/90, there were 85. Management has informed us that patent examiners have also been used to develop procedures under the new Act and to contribute to the Patent Information Exploitation Program discussed in section 16.39. As a result, in 1989/90 each examiner was able to process 226 applications, whereas in 1983/84 this figure was 290. There has also been a turnover in staff.

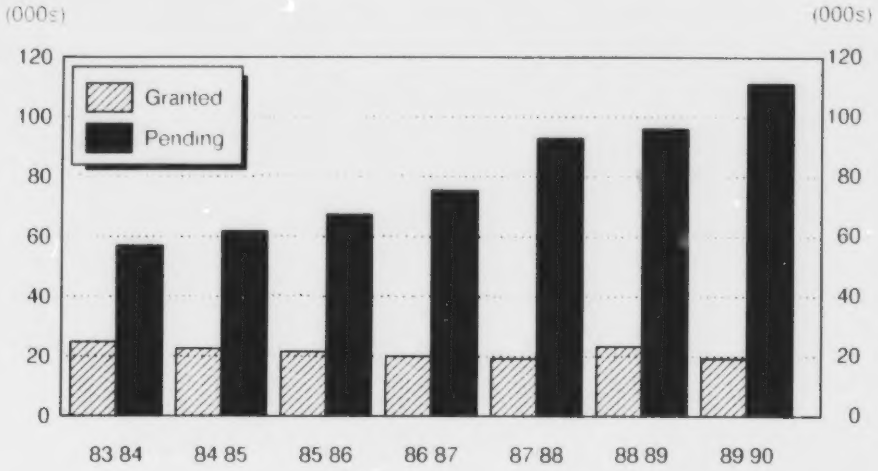
16.30 Senior management in the Department has stated that the Office's inability to provide "world class" service is not conducive to creating a healthy climate for investment in Canada. Excessive waiting periods for the scope and nature of ownership of new technology in Canada to be established, reduces investor confidence in this technology, possibly leading to delays in business and investment decisions.

16.31 **Service levels unlikely to improve.** Under the new Act, the Patent Office plans to reduce the time it takes to issue a patent from the time the examination is requested from 43 to 24 months by 1993/94. We identified weaknesses in management's forecasts that make meeting this target unlikely.

16.32 The Patent Office has developed a plan to reduce the number of pending applications, based on additional resources and a forecast of future workloads. However, management assumed that there would be a 2.5 percent annual increase in patent applications from 1989/90 to 1993/94. The average annual increase between 1982/83 and 1988/89 was 4.6 percent per year. The Office has not identified any factors that would support using a lower rate. Using the figure of 4.6 percent, the Patent Office will not be able to reduce the number of pending applications sufficiently to bring down the turnaround time as planned by 1993/94.

Exhibit 16.3

CANADIAN PATENT OFFICE - WORKLOAD TRENDS



16.33 The Patent Office should review its forecast of future workloads and develop a strategy for meeting its planned level of service.

Department's response: *The Canadian Patent Office will review its forecasting methodology of future workloads and develop corresponding strategies for meeting its planned levels of service.*

16.34 **Lack of quality assurance in the patent examination process.** We found that the patent examination process does not include an adequate quality assurance component. There are limited procedures for testing the quality of patent examinations to provide independent assurance on the completeness, relevance, supportability, and consistency of the work of examiners.

16.35 After the patents are granted, the Patent Office selects 10 percent for review. If there is an existing American patent, the two claims are compared, although the results of the American search are also used in the examination process. If the scope granted by the Canadian patent is the same or narrower than the American one, then the examination is assumed to have been of high quality. If the scope is broader, it must be explained in the assessment. No examinations are redone. No Canadian patent is fully reviewed unless a corresponding American patent has already been granted.

16.36 We believe that, in order for management to have proper assurance that the patent examinations are well done, a sample should be re-examined before patents are granted. The results of the review should be used to correct errors and improve the examination process. In the Trademarks Office, for example, three percent of the trademarks registered are re-examined before they are approved

16.37 The Patent Office should improve its quality assurance function as it relates to the granting of patents.

***Department's response:** The Canadian Patent Office will explore ways in which the quality assurance function can be improved and, where feasible, implemented.*

16.38 Poor screening of requests under the Patent Information Exploitation Program. There is inadequate screening of requests for searches of patent information under the Patent Information Exploitation (PIE) Program. As a result, examiners are diverted from the patent examination process to perform, for free, services that are available from the private sector.

16.39 The PIE Program provides small and medium-sized Canadian businesses with national and foreign patent information. Its purpose is to identify the latest developments in a specific technology in order to minimize duplication in research and development by providing possible technical solutions. Canadian patent information is available only at the Patent Office in Hull. Through the PIE Program, the Office has encouraged free access to patent information during the earliest stage of development. It is the responsibility of patent examiners to screen and respond to requests for information under the PIE Program.

16.40 Approximately 60 percent of the requests that we reviewed were "novelty" searches for developed products instead of information searches. A novelty search determines whether an idea repeats technology set out in existing patents. If the idea is novel, it may be patentable. A novelty search is normally performed by the private sector on a fee-for-service basis. The PIE Program is not intended to provide this type of search. On average, it takes 2.5 hours to answer each application. The Patent Office has received and reviewed some 2,600 requests in the past two years, requiring on average 6,500 hours of examiner time that could have been used to examine 880 patent applications.

16.41 The Patent Office should improve its screening of search requests under the Patent Information Exploitation Program to ensure that they are consistent with the purpose of the program.

***Department's response:** The Canadian Patent Office has initiated steps to amend its publications and screening procedures under the Patent Information Exploitation Program to ensure consistency with the purpose of the program.*

Trademarks Office

16.42 The Trademarks Act sets out the Trademarks Office's responsibilities relating to examining, keeping a register of trademarks, making public the information contained in the register, and preparing trademark certificates on request.

16.43 Once the trademark application has been accepted, the Office has to advertise the mark. The applicant's right to the trademark can then be challenged. Both the applicant and the challenger can make representations to the Trademarks Opposition Board, which reviews and adjudicates opposition motions by parties who claim that certain trademarks are infringing on their rights.

16.44 We found two areas for improvement in the Trademarks Office. Management is aware of these problems and is working on solutions.

16.45 Delays in the trademarks appeals process. We found that although the Trademarks Opposition Board has set a service standard of five months for a case to be heard, it currently takes 12 months. The Board also has a standard of two months from the time of the hearing to the final decision. Currently, there are 335 cases waiting for a final decision. Since the Board renders 150 decisions a year, some parties will have to wait more than two years for a final decision. These applicants must decide whether to proceed with an unapproved trademark or wait for a final decision. The first alternative involves legal and financial risks, while the second may result in foregone revenues.

16.46 Ongoing requirements for overtime. We found that the staff of the Documentation and Registration Branch have been working overtime on a regular basis for more than seven years.

16.47 This Branch is responsible for the first and last stages of the processing of patent and trademark applications. Management informed us that in order for the Branch to process its workload, the current staff have to regularly work overtime. While overtime may be required on a temporary basis, ongoing overtime is costly and avoids person-year controls

Corporations Directorate

16.48 The Corporations Directorate regulates the creation and existence of federally incorporated corporations and maintains order and fairness in this corporate environment. The Directorate administers nine federal acts We examined the administration of the Canada Business Corporations Act, since the majority of Corporations Directorate resources are focussed on programs under this Act

16.49 Problems maintaining currency and testing the accuracy of files. We found that management had no procedure for assessing the currency or accuracy of the information it holds. There are delays in checking annual returns, and required steps have not been taken to dissolve non-compliant firms in order to record their correct status.

16.50 The Directorate must maintain complete, accurate, and current information on federally incorporated corporations in order to fulfil numerous requirements under the Act. Prior to 1983, a procedure was in place to determine the level of error in the files. However, this practice was discontinued due to resource constraints. Management estimates that up to 10 percent of the files contain incorrect information.

16.51 There is a three-month backlog in checking the annual returns that contain modifications to corporate structures and/or addresses. We also found that the Directorate maintains files on about 40,000 corporations that have not complied with the Act and could be dissolved by the Director General of Corporations. The Bureau, however, has decided not to spend money on publishing the names of these corporations, a step required in order to dissolve them, and must therefore maintain these files.

16.52 The Directorate should ensure that the information it holds on federally incorporated corporations is complete, accurate, and current.

Department's response: *The Corporations Directorate is now in the process of embarking upon a major automation initiative which will enable the redeployment of resources from clerical functions to compliance and quality control related functions.*

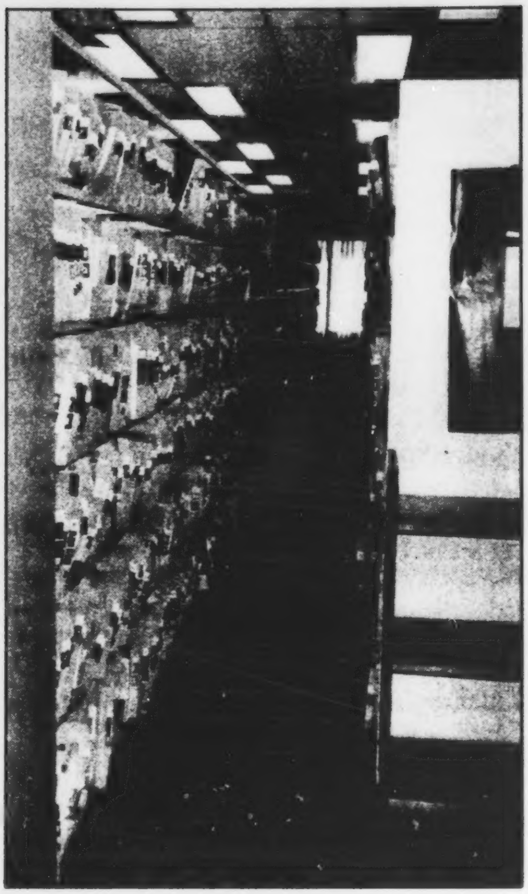
Protection of Information

16.53 Information not adequately protected. We found problems of physical security with the information held by the Patent Office, Trademarks Office, and Corporations Directorate.

16.54 The files stored by the Trademarks Office and the Corporations Directorate have no backup. Duplicate copies of granted patents are not kept by the Patent Office. The original documents are deteriorating from constant use. There is also the risk of loss from fire or other disasters.

16.55 The Bureau should take steps to properly protect the information in its possession.

Department's response: *The Bureau is actively exploring means to properly protect the information in its possession. The integrity and security, including physical security, of material stored in the Patent Office and the Trademarks Office will be enhanced by the computerization and automation steps currently being pursued. The automation initiative in the Corporations Directorate will include an imaging component which will allow for backup copies of its files to be created and maintained systematically.*



Original files of the Corporations Directorate are in constant use, but no backup exists (see paragraph 16.54).

Bureau of Competition Policy

16.56 The Competition Act establishes a framework for the conduct of business in Canada that applies to all sectors of the economy. The responsibility for enforcing the Competition Act rests with the Director of Investigation and Research, who heads the Bureau of Competition Policy.

Merger Branch

16.57 The 1986 Competition Act transferred the review of mergers from criminal to civil law. This approach reflects Parliament's intention to regard mergers as neither inherently good or bad; instead each transaction is to be assessed in relation to its effects on competition. Merger assessment is a complex task, combining legal, economic, and business analysis to reach a decision on the probable effects on competition (see Exhibit 16.4). As part of implementing this new approach, we would expect to find that the Director had taken steps to clarify merger review policy and provide guidance to staff in the form of directives and procedures.

16.58 Commitment to timely release of merger guidelines. The Director is producing public guidelines explaining how the Bureau of Competition Policy assesses mergers and how it interprets all of the factors listed in the Competition Act. Since 1986, the Director and his senior staff have explained certain aspects of the merger review process through speeches, news releases, and policy statements. Recognizing that a complete description of the process is required, the Director announced in December 1989 that the Bureau would publicly release merger guidelines by the end of 1990. A clear statement of how the mergers are to be assessed will also enhance the development of the Bureau's internal policy in key areas and provide direction to staff. At the end of this audit, the guidelines were being developed and were scheduled for release in December 1990.

The Director is planning to release merger guidelines.

16.59 Procedures needed for selecting mergers for review. While certain mergers are reported to the Bureau, many others come to its attention indirectly. We found that the Director had not developed procedures for determining which of these other mergers should be selected for intensive review. We also found that management decisions on whether to exempt a merger from further review were often not supported with even the minimum amount of information needed for making such decisions.

Exhibit 16.4

COMPETITION ACT
FACTORS FOR ASSESSING MERGERS

A variety of factors are considered in the assessment of mergers, including those specifically identified in the Act:

(a) effectiveness of foreign competition,
(b) failing business,
(c) availability of acceptable substitutes,
(d) barriers to entry,
(e) extent of effective competition remaining,
(f) removal of a vigorous and effective competitor,
(g) change and innovation in a relevant market, and
(h) any other factor relevant to competition (that would be affected by the merger)

Source: *Information Bulletin, #1, The Merger Provisions, CCAC, June 1988*

16.60 The Director learns of mergers from numerous sources. Of the approximately 4,600 mergers since 1986, 560 were reported directly because they exceeded size thresholds specified in the Act or because the firms wanted the Director's opinion on the merger's effect on competition. Another 660 were referred by Investment Canada. The remaining 3,400 mergers came to the attention of the Director indirectly, mostly through media reports. Since 1986, the Director has examined 640 mergers.

16.61 The Branch's current practice is to circulate these media reports to senior managers for comment. Managers rely on their knowledge and experience to determine whether these mergers raise potential competition concerns. For those mergers which are not subject to detailed analysis, the Branch does not record the reasons for exempting transactions from intensive examination. Our review showed that in more than 60 percent of the case files, the decision to exempt a merger from review was made without any supporting information on the value of the transaction, the corporate affiliations of the merging firms, the specific markets affected, and the market shares involved.

16.62 **The Director should develop a procedure for efficiently determining which mergers require detailed examination.**

Department's response: *The Director is implementing formal procedures for mergers which come to his attention through the media, and for recording the decisions made in each case.*

16.63 **Need for procedures in the merger review process.** The Director has not developed internal procedures for the merger review process, including clarification of all the factors in the Act, to serve as a guide for staff. Nor has he assessed the risk of relying entirely on information that is provided voluntarily.

16.64 Currently, staff use the speeches of the Director, Bureau news releases, internal technical papers, and previous merger assessments, where applicable, as guides in assessing the probable effects of a merger on competition. However, Branch managers and merger review officers confirmed that several factors in the Act were not, as yet, sufficiently well defined to serve as clear guides to decision making. We were informed that the merger guidelines being prepared by the Bureau will specifically address each of the factors.

16.65 The merger assessment documents that we examined were not uniform in scope and coverage. We found that there was some inconsistent recording of information, important data such as market share and market concentration were often missing, and the interpretation of certain qualitative factors in the Act varied.

16.66 The Branch managers rely on the merging firms, competitors, and customers for the information used in their assessments. This information is supplemented by the use of industry experts. Branch managers, however, confirmed that relying on the firms to voluntarily supply the assessment information can represent a risk, in that it is in the interests of the firms to present the available information favourably.

16.67 Our review of assessment documents showed that sources of information other than the merging firms were not always identified. In many cases, there was no indication that the Branch obtained information from sources other than the parties to the merger. We also found that in a few assessments the conclusions reached were, in part, based on claims made by the merging parties that had not been verified by the Branch.

16.68 The Director should provide staff with complete merger review procedures, including definitions of all the factors to be considered in the analysis and guidelines on the reliability of different kinds of information.

***Department's response**: Through the preparation and issuance of the merger guidelines, the Director will be providing insight and guidance to staff with respect to merger review procedures, the definition of the factors to be considered in the analysis, and the reliability of different kinds of information.*

Marketing Practices Branch

16.69 The Competition Act applies to all representations made by sellers to the public, including media advertising. Under the Act, misleading advertising is a criminal offence punishable by fine or imprisonment.

16.70 The Director of Investigation and Research is responsible for implementing the misleading advertising and deceptive marketing practices provisions of the Act. The level of enforcement activity is intended to be sufficient to deter violations of the marketing practices provisions of the Act and to promote a marketplace in which purchasers can make informed and rational decisions.

16.71 In June 1988, the Standing Committee on Consumer and Corporate Affairs released its report on misleading advertising. In it, the Committee recommended that the Competition Act be amended to provide the Director with alternatives to criminal prosecution such as interim injunctions, consent procedures, written undertakings, and the making of rules and regulations. Although the Government did not formally respond to the report, the Department is currently examining possible amendments to the Act in line with some of the Committee's recommendations. Within its existing authority, management initiated a program of compliance that supplements the criminal law with alternative case resolutions, such as information contacts. It also provides advisory opinions to businesses on whether planned advertising is likely to conflict with the Act.

16.72 Declining number of complaints investigated. We expected that management would have established appropriate levels of enforcement under the Act and would manage its investigations to optimize efficiency and effectiveness. We found that management had established enforcement levels through investigation. However, the proportion of possible violations of the Act investigated had dropped well below the objective set by the Branch.

16.73 The Branch relies almost exclusively on complaints by consumers or businesses to initiate investigations. When a complaint is received, it is assessed by regional program managers against general criteria to determine whether there is a strong indication that the Act has been violated. When the complaint indicates a violation, it is known as a complaint of substance, and the manager may assign the case for further investigation, depending on its seriousness and on the availability of staff. Those complaints of substance that are not investigated may be handled by bringing the matter to the attention of the business through an information contact, or the Branch may decide not to proceed.

16.74 The proportion of the complaints of substance that are investigated has declined from 22 percent in 1979/80 to eight percent in 1989/90, well below a Branch objective of 25 percent set in 1986. As investigations declined,

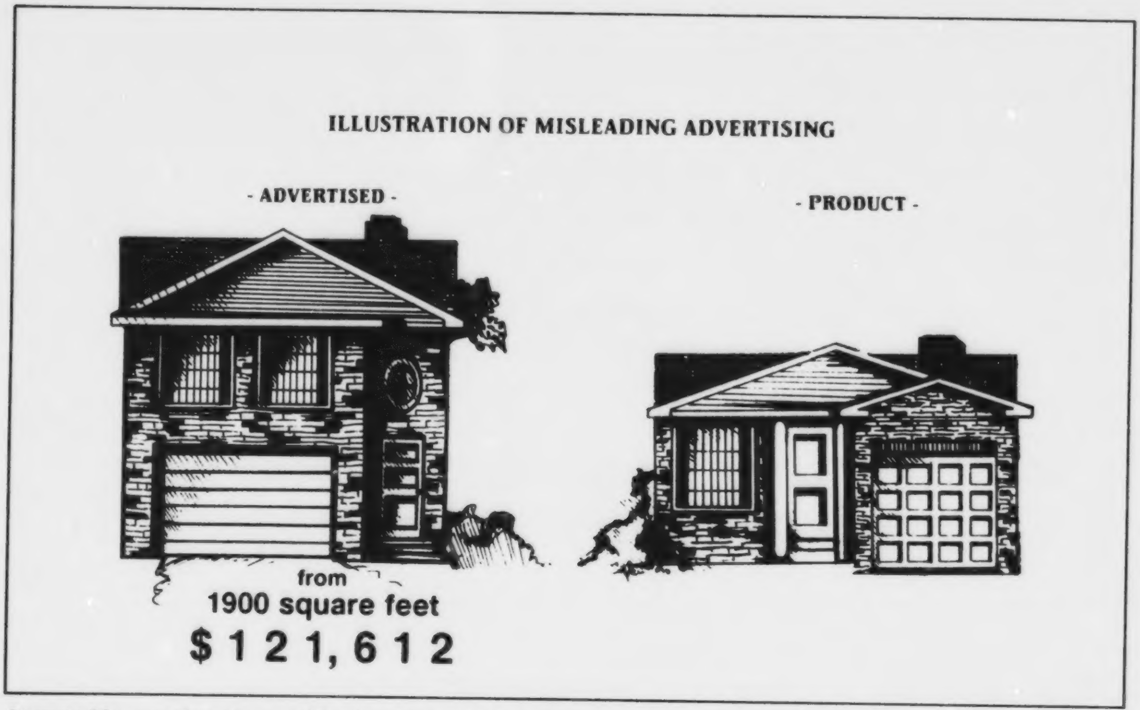


ILLUSTRATION OF MISLEADING ADVERTISING

Attracted by an advertisement like the one on the left, prospective buyers found that $121,612 was actually the price of the house on the right (at 950 square feet). The developer was found guilty of 11 counts of misleading advertising and was fined.

the proportion of information contacts increased from 12 percent in 1979/80 to 21 percent of complaints of substance in 1989/90. In 1989/90, there were 4,300 substantive complaints that were not investigated at all. (See Exhibit 16.5.)

16.75 Branch management has recognized for many years that information contacts, often in the form of a letter, are a second-best enforcement mechanism. It has not assessed the impact of the shift in approach on deterring violations or improving the quality of marketplace information.

16.76 Management believes that the deterrent effect of the Branch's enforcement activities has declined substantially in recent years. Branch managers were of the opinion that the current level of enforcement had little effect on the overall quality of marketplace information.

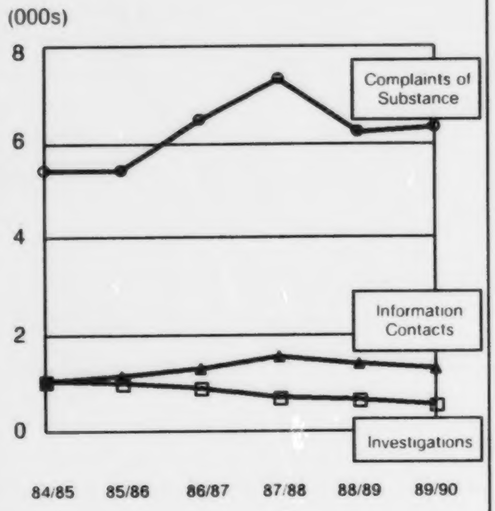
16.77 Increasing cost of investigations. We found that the Branch's investigations have become increasingly costly. Since 1984/85, person-year resources have declined marginally from 76 to 73, but the number of investigations per person-year has fallen from 14 in 1984/85 to seven in 1989/90. The average cost of completed investigations has risen 90 percent since 1984/85.

16.78 Branch management reports that the decrease in outputs can be partially attributed to an increase in investigative complexity, to a significant staff turnover, and to the recruitment of new staff who do not have police training. The Branch is responding by implementing a strategy, which includes sending staff to an investigative training course.

16.79 Weaknesses in focussing effort on cases of greatest impact. We found that there are weaknesses in the Branch's ability to identify, and concentrate its resources on, those cases most likely to bring about the largest improvement in the quality of marketplace information.

Exhibit 16.5

MARKETING PRACTICES ENFORCEMENT ACTIVITY



SOURCE: *Marketing Practices Branch Year-End Reports 1984/85 to 1989/90*

16.80 The thousands of complaints received each year are an important source of information on the nature of misleading advertising in the marketplace. We found that there is no analysis of complaints by market or by sector of the marketplace in order to ensure investigatory resources have the maximum impact. The annual program priorities established by headquarters affect only a small portion of the investigations; the remaining investigative priorities are set by regional managers on a complaint-by-complaint basis. Headquarters has not systematically reviewed these assessments to ensure consistency in the selection of significant cases across the country.

16.81 We also found no clear basis for allocating program resources among regions. Headquarters states that resources are allocated to regions according to the number of investigations undertaken. However, regional managers base their decisions to investigate on the availability of resources. There is no system of resource allocation based on an objective assessment of the risks associated with complaints received in the various regions.

16.82 The Director should review current practice and develop a strategy to maximize program efficiency and effectiveness.

Department's response: *The Director is implementing a compliance-oriented strategy to permit the concentration of enforcement resources on high-priority cases, while resolving other matters through alternative means. The effectiveness of this strategy will be reviewed at the end of 1991/92. In addition, a working group will develop proposals for reform of the relevant provisions of the Competition Act, to permit more effective and efficient administration.*

Administrative Practices

16.83 Non-compliance with order in council contracting rates. The Bureau of Competition Policy relies extensively on outside experts to carry out its responsibilities, particularly in the area of merger review. The Competition Act gives the Director of Investigation and Research special contracting authority with the requirement by order in council that contractors be paid no more than $150 per hour. The Director has entered into numerous contracts that do not specify the number of hours of work (and therefore the hourly rate) and, as a result, has not complied with the controls imposed by the order in council.

16.84 The Director should ensure that contracting is in compliance with the order in council contracting authority.

Department's response: *All recommendations to the Director for the use of the special contracting authority and the actual contracts now refer to either the specific hourly rate or to* *a daily rate together with the hours of work per day.*

Bureau of Consumer Affairs

16.85 The Bureau of Consumer Affairs establishes regulations and administers programs to promote protection of consumer interests and fairness in the Canadian marketplace and to ensure accurate measurement and equity in trade.

Legal Metrology Branch

16.86 The Legal Metrology Branch is responsible for regulating the measurement aspects of commercial trade. The Branch encompasses two sub-activities: Weights and Measures, and Electricity and Gas. Each sub-activity has a headquarters and a field inspection component. The headquarters units are headed by the Director of Legal Metrology and are responsible for policy and program development, the standards laboratories, and functional guidance to the field inspection components. The field inspection components are divided among five regions, each headed by a regional director. The Director of Legal Metrology and the regional directors report to the Assistant Deputy Minister, Bureau of Consumer Affairs.

Legal Metrology - Weights and Measures Sub-activity

16.87 The Weights and Measures sub-activity is responsible for the development, administration and enforcement of legislation to minimize inaccurate measurement and to ensure equity in the trade of goods and services provided on the basis of measurement. The Weights and Measures Act requires that weighing and measuring devices, such as weighing scales or gasoline pumps, be approved, initially inspected, and periodically inspected. Violations are subject to different types of enforcement up to and including prosecution.

16.88 **Weaknesses in regulations.** We expected that program management would ensure that regulations are consistent and provide a commonly understood basis for program delivery and accountability. However, we found instances of inconsistency in regulatory requirements.

16.89 Management has exempted certain devices from the full application of the Act without obtaining regulatory approval. The Act requires approval and inspection of all devices used in trade. However, devices can be specifically exempted through regulation; for example, water meters and odometers have been exempted. There are devices that fall within the mandate of the Act which are neither inspected nor exempt. These include the full inspection of well-head meters (oil pipelines) and portable feed scales, and the periodic inspection of anhydrous ammonia meters

16.90 The inspection coverage defined in regulations mandating the annual inspection of primary grain elevators and those covering their fees are inconsistent. Regulations require that all primary grain elevators be inspected every year, while specifying fees for only those primary grain elevators that are licensed under the Canada Grains Act. As a result, field staff are directed to include only elevators covered by regulations for fees in their annual workload. Grain elevators otherwise licensed are inspected less frequently.

16.91 Regulations requiring the use of the metric system of measurement at the retail level of trade were enacted under the provisions of the Weights and Measures Act. These regulations are not being enforced. To date, these regulations have not been amended or revoked.

16.92 **The Bureau of Consumer Affairs should ensure that regulations are consistent, current, and clearly define exemptions under the Act.**

Department's response: *Some corrective action has been taken and other regulations are under review.*

16.93 Frequency of inspections undefined. In a regulatory program such as Weights and Measures, we expected that the Bureau would determine what the inspection obligations were under the Act and regulations and would ensure that these obligations were communicated to and met by staff. However, we found that the Bureau has not determined how often most devices used in trade should be inspected after the initial inspection, and that regional management has not kept adequate information on their location. We found that the anticipated time between inspections of all devices varied from two to nine years in the districts that we examined. In one Toronto district, the anticipated time had gone up to 21 years.

16.94 The Bureau informed us that the planning of periodic inspections is based on an "optimum coverage cycle." However, no direction was provided to regional offices on how to define an optimum cycle. In practice, an optimum cycle means the best that can be achieved with available resources once calibration of standards and initial inspections have been conducted. As a result, we observed substantial variation across the country in the frequency of inspections. Inspection plans are not based on management's assessment of an ideal or appropriate cycle, but rather on current mandatory workload and existing resources.

16.95 The Bureau of Consumer Affairs should provide direction on how often devices should be inspected, and plan and allocate inspection resources accordingly.

Department's response: *The Bureau will review inspection programs to ensure clear direction is given as to the frequency of inspection of devices.*

16.96 Through periodic inspections, regional management tries to maintain a data base on the location of all devices in a geographic area and their inspection histories. One of the uses of the information gathered each year is to predict which devices are likely not to be in compliance, in order to target devices for selective inspections. Due to the length of time between periodic inspections in some areas, the information needed to locate these devices is increasingly out of date, as businesses close or change locations.

16.97 Selective inspections poorly targeted. We found that the Bureau has not ensured that selective inspections target particular problems as intended.

16.98 Selective inspection was introduced in 1983 to supplement the periodic inspection of all devices in an area and to compensate for increasing workload and a reduction in staff and other resources. Using the information gathered by periodic inspections of geographic areas, regional management identifies devices, classes of devices, or businesses that are likely not to comply with the Act. These results are used to target inspections at problem areas. If these selections were correct, the compliance rates for the targeted devices would be lower than for other devices.

16.99 However, we found instances at the district level where the compliance rates for targeted devices were, in fact, higher than for similar devices. This suggests that the selective inspections have targeted the wrong devices. We also noted instances where devices were targeted even though the periodic inspections showed no compliance problems. Bureau management could not explain these differences. Poor selection of devices may be partly due to the problems with data base information on device location and inspection history.

16.100 There is considerable variation in the frequency of periodic inspections. The impact of selective inspections targeting problem devices in districts where there is a two-year cycle as opposed to a nine-year cycle will differ. While selective inspections were introduced seven years ago, the Bureau has not assessed the efficiency or effectiveness of this approach to targeting device inspections, particularly in relation to the potential duplication with periodic inspections.

16.101 The Bureau of Consumer Affairs should assess the efficiency and effectiveness of the selective inspection program.

***Department's response**: The selective inspection program is monitored on an on-going basis by analysing device compliance rates. Further assessment of this approach will be undertaken as part of a sub-activity program evaluation.*

16.102 Need to assess the pilot program before further implementation. We found problems in the implementation of changes to the selective inspection program.

16.103 Management is in the process of modifying its selective inspection program. The intent is to direct inspections at those devices where the greatest dollar inequity is expected to be found. Inequity is determined for each type of device by the estimated dollar value of the product being sold, estimated cost per inspection, and the compliance rate.

16.104 This approach was being phased in at the time of our audit. We were informed that five districts were used as pilots in 1989 90. Five more are planned for 1990 91. This approach will be phased in for the remaining 16 districts. We found inaccuracies in the data used in estimating the dollar value of the product sold and the cost of inspections. As a result, there is no assurance that the right devices were being targeted. Although the data problems were known to management before the pilot project started, no corrective action was taken prior to its implementation. Consequently, the results of the pilot project are of limited use.

16.105 We found that the goals and objectives of the pilot project have been poorly communicated to regional managers. Managers in whose districts the project is being piloted have not been told how it will be evaluated or what the criteria for success or failure are. While management planned to assess the feasibility of this approach, they informed us that they do not intend to evaluate the first year of the pilot project but will extend it for another year. Given the difficulties experienced to date, we believe that a thorough assessment should be made to correct deficiencies in this approach and to determine its feasibility before more resources are spent.

16.106 The Bureau of Consumer Affairs should fully assess the efficiency and effectiveness of the pilot project before proceeding with further implementation.

***Department's response**: The pilot project will be assessed before proceeding with full implementation.*

Legal Metrology - Electricity and Gas Sub-activity

16.107 This sub-activity is responsible for the development, administration and enforcement of the Electricity and Gas Inspection Act (1986) and Regulations, which set out a framework for minimizing inaccurate measurement and ensuring equity in the trade of electricity and gas.

16.108 We expected that the Bureau would have determined what its obligations were under the Act, defined how inspections are to be conducted, and ensured compliance with the Act and Regulations. However, we found that it has not clarified some of the requirements of the legislation or provided inspectors with many required inspection guidelines and procedures.

16.109 Failure to clarify statutory requirements. The Bureau has not clarified whether the inspections of installations are mandatory under the Act. They are treated as discretionary. As a result, we found significant variation in the coverage of installation inspections among regions.

16.110 An "installation" is a complex measurement system consisting of meters, transformers, and other devices. It is used in measuring electricity or gas for billing purposes in commercial and industrial settings. During

1988 89, the sub-activity inspected about 9,700 of the 480,000 installations in use in Canada and rejected approximately 2,000 of these systems for non-compliance. Management reports that these inspections discovered $19 million in incorrect charges.

16.111 The Electricity and Gas Inspection Act specifies that all meters used for billing purposes should be reverified in accordance with regulations. Under the previous Gas Inspection Act, installations were defined as meters and therefore subject to inspection. However, senior management has informed us that they are uncertain as to whether installation inspections are mandatory under the 1986 Act and that they will seek legal advice.

16.112 Bureau management is in the process of clarifying its legislative obligations, but up to the time of our audit, treated these inspections as a discretionary activity. No direction has been provided to regional managers on the appropriate frequency of installation inspections. We noted a variety of selection methods, ranging from random sampling to responding to requests from utilities or gas companies. As a result, there are significant inconsistencies in the coverage of installation inspections across the country.

16.113 Lack of complete inspection procedures. We found that there was no complete set of procedures for many gas and electricity meter inspections. As a result, inspection procedures used varied among regions.

16.114 Under the previous legislation, inspectors were provided with an instruction manual outlining the procedures for inspecting electricity and gas meters used in Canada. Under the current Act, the Director of Legal Metrology is responsible for providing specifications for the performance and inspection of meters.

16.115 Inspectors have not been provided with new procedures. They have been told to use the new regulations and the procedures issued under the old legislation. The existing procedures may or may not apply under the

9,700 out of a total of 480,000 complex measurement systems or installations were inspected in 1988/89 (see paragraph 16.110).

new Act and do not deal with many meters now in use. The Director has issued inspection procedures for only a fraction of the 362 meters that have received prototype approval from the E&G Laboratory since 1986. Many new procedures are only in draft form, and inspectors routinely contact headquarters staff for advice on conducting meter inspections. Some regional staff have developed their own procedures for testing new meters in the absence of approved ones. As a result, procedures varied among regions. Other procedures for the settlement of billing disputes have not yet been developed.

Inspectors are not provided with complete procedures.

16.116 The Bureau of Consumer Affairs should clarify the legislative requirements concerning installation inspections, and plan and resource these inspections accordingly. It should ensure that a complete set of procedures for inspection and dispute settlement are provided to field staff.

***Department's response**: The Bureau will clarify the legal requirements of treating installations as if they were individual meters. Regional and headquarters work committees have been established to refine and provide a comprehensive set of inspection procedures to field staff.*

16.117 Accreditation target will not be met. The government's 1992 target to turn over the inspection of meters to the private sector will not be met.

16.118 With the passage of the Electricity and Gas Inspection Act in 1982, the Director of Legal Metrology was authorized to accredit electricity and gas utilities and meter manufacturers so they could verify their own meters. By 1986, coincident with the proclamation of the Act, the regulations authorizing accreditation were approved.

16.119 In 1988, the Bureau reported an objective of accrediting 24 of the largest electricity and gas utilities and the major meter manufacturers. This represented about 73 percent of the meters in Canada. No objective was set for the devolution of meter inspection to the private sector for the remaining 1,100 smaller utilities.

16.120 At the time of our audit, four large utilities and three electricity meter manufacturers had qualified for accreditation. Management was unable to provide us with plans for achieving the objective of accrediting the rest of the large utilities in 1992. They indicated that this objective would not be met.

16.121 Failure to report delay. Because the Bureau failed to provide complete information to the Office of Privatization and Regulatory Affairs, the Office's progress report to Parliament could not indicate the slow progress in realizing the objective of devolution to the private sector.

16.122 The Bureau of Consumer Affairs should improve its planning for turning over the inspection of meters to the private sector. The Bureau should ensure that full and up-to-date information on the progress of accreditation is provided to the Office of Privatization and Regulatory Affairs.

***Department's response**: The accreditation program is voluntary on the part of utilities and the rate of implementation is a function of their priorities and capabilities. The plan will be reviewed and updated. Information on the progress of accreditation will be provided to the Office of Privatization and Regulatory Affairs.*

Fees for Departmental Services

16.123 As Exhibit 16.6 illustrates, several of the activities that we audited, particularly in the Bureau of Corporate Affairs and Legislative Policy, generate revenues. Under the current arrangements, all revenues generated by these

Exhibit 16.6

REVENUES
CORPORATIONS, PATENTS AND TRADEMARKS
($000s)

	Revenue		
	1989/90* Forecast	1990/91* Estimates	1991/92** Estimates
Corporations	12,000	12,000	12,000
Patents	27,900	31,900	37,400
Trademarks	13,700	14,400	15,000

* *Part III of 1990/91 Estimates, 1989/90 Forecasts*

** *Provided by The Department of Consumer and Corporate Affairs*

activities are deposited in the Consolidated Revenue Fund.

16.124 The Department has an obligation to ensure that it has statutory authority to charge fees. Specific statutory authority for permitting charges to users is found in the Canadian Business Corporations Act, the Electricity and Gas Inspection Act, the Weights and Measures Act, the Bankruptcy Act, the Patent Act and the Trademarks Act. These Acts allow for setting fees by way of Governor in Council approval.

16.125 Good management practices require that charges for services and rights or privileges to the public should be considered in light of rates that will recover their full cost. Full costs include all direct costs and the appropriate portion of indirect costs incurred.

16.126 Lack of procedures to determine full cost and fees. The Department does not have adequate procedures in place to determine the full cost of services, such as registering corporations or granting patents and trademarks. In several instances we found that the full cost of the service was defined as the direct costs plus a standard overhead factor taken from the departmental financial manual. Program management agreed that this method does not accurately reflect the full cost of providing the service. The Department was unable to provide an analysis of the factors, including full costs, considered in setting the fees.

16.127 The Department should determine the full cost of services and rights or privileges provided for a fee. The Department should consider all relevant factors, including costs, when setting a fee.

Department's response: *The Department will review the fee-setting process to ensure that all relevant factors, including costs, are taken into consideration.*

Internal Audit and Performance Measurement

16.128 Government policy requires that departments periodically conduct a systematic review and appraisal of management policies, practices and controls and evaluate the efficiency and effectiveness of their programs. The Department has both an internal audit group and a program evaluation group charged with fulfilling these requirements.

16.129 Gaps in coverage of internal audit and program evaluation. We examined the internal audit and program evaluation activities within the scope of our audit and found gaps in the coverage.

16.130 The departmental internal audit plan proposes to undertake audits of all significant departmental functions over a seven-year period. Of the seven sub-activities covered within the scope of our audit, two sub-activities and the major part of a third had not been audited in the last seven years. There have been no internal audits of the Electricity and Gas sub-activity, no audit of the Patent Office, the largest part of the Intellectual Property sub-activity, since 1980, and none of the Bankruptcy Branch since 1982. The internal audit group, however, is involved in the patent automation project.

16.131 As a guide, government policy suggests that each program should be evaluated by departments at least once every five to seven years. Of the seven sub-activities within our audit scope, three have been evaluated, and the evaluation of a fourth is currently under way. One of these evaluations was a special study of privatization and cost recovery in the Weights and Measures sub-activity. We examined this study and found that the conclusions reached were not supported by the data and analysis contained in the report.

16.132 We found that of the 13 sub-activities responsible for program delivery, only three have been evaluated since the current program evaluation unit was established in 1982. During this time period, evaluation activity has focussed on operational and planning issues, such as an examination of compliance strategies.

16.133 The Department should ensure that the coverage of internal audit complies with the internal audit plan and that the program evaluation function provides information on program effectiveness in a timely fashion and of an appropriate quality.

Department's response*: The Department will ensure that the coverage of Internal Audit complies with the Internal Audit plan, and will review the program evaluation plan to ensure that timely, quality studies of program effectiveness are undertaken.*

Reporting to Parliament

16.134 Part III of the Estimates is intended to provide Parliament with complete and accurate information with which to understand and assess planned and actual program performance. We examined the information provided to Parliament in the Department's 1990 91 Estimates Part III and found a number of omissions and inaccuracies.

16.135 The Estimates Part III omits important performance information. Performance information that would show Parliament some of the current difficulties in meeting performance targets has been omitted. Information was also not provided on the uses of funds for special purposes.

16.136 In the current Estimates Part III, the Department fails to provide important information on the declining enforcement level of the marketing practices provisions of the Competition Act. For the Weights and Measures sub-activity, the Part III reports that all inspections of measuring devices used in trade are based on an optimal cycle. As we have shown in sections 16.93 and 16.94, no such cycle exists, and the anticipated time between inspections will vary from two to nine years.

16.137 The Patent Office reported that it has a growing caseload, which contains in excess of 110,000 applications. It did not report the long waiting period of 43 months to process patent applications. Also, the Department has not informed Parliament of the 12-month backlog for Trademarks Opposition Board cases. In addition, the Department has not informed Parliament of the delay in accrediting utilities and manufacturers to inspect electricity and gas meters.

16.138 Under Section 31 of the Patent Act (1987), the Canadian Patent Office was given responsibility for distributing $100 million to the provinces for "the purpose of research and development in medicine" for a period of four years starting in 1987 88. As of our audit, $75 million had been disbursed. The Department has not reported to Parliament on the use of these funds by the provinces.

16.139 Inaccuracies in the Estimates Part III. Although the Department reports that the inspections of installations by E&G inspectors are guided by sampling techniques, we found that only one region carries out its inspections in this way. The Department also reports that for Weights and Measures there was an improvement in compliance rates attributed to its selective enforcement strategies, although it has no studies to support this claim.

16.140 We found that the description of the merger review process contained inaccuracies. For example, as shown in 16.60, not all mergers are assessed as reported. Similarly, in the Director's annual report to Parliament, not all mergers are reviewed as stated. Less than 20 percent are reviewed in any detail.

16.141 The objective of the Bankruptcy Branch, as stated in the Estimates Part III, claims responsibilities that are beyond the scope of the current bankruptcy legislation.

16.142 The Department should ensure that the Estimates Part III contains complete and accurate information.

***Department's response**: The Department is reviewing the information it includes in the Estimates Part III, to ensure that all relevant program performance information is set out.*

17

Department of Energy, Mines and Resources

Surveys, Mapping and Remote Sensing Sector

Department of Energy, Mines and Resources

Surveys, Mapping and Remote Sensing Sector

Main Points

17.1 We audited the Surveys, Mapping and Remote Sensing Sector of the Department of Energy, Mines and Resources. In general, we found appropriate operational management systems in place or being set up throughout the Sector. We saw signs that the Sector was starting to co-ordinate issues common to several of its Centres, such as the management of research and development projects. The Sector has also taken a leadership role in co-ordinating geomatics activities at the federal level and in developing co-operative programs with the provinces. Since our last audit in 1982, the Sector has made major changes -- such as creating the Canada Centre for Geomatics in Sherbrooke, contracting more work out to industry, and amalgamating the remote sensing with the surveying and mapping organizations. In dealing with these issues, the planning for some others was deferred, in particular the development of the rationale for the National Topographic Data Base (NTDB). The NTDB attempts to deal with the question of how to produce or revise paper maps efficiently, while meeting the emerging need for digital map information. It is an expensive, long-term development affecting all parts of the Sector. Although the Sector has undertaken a number of studies, we could not find adequate plans and analysis guiding the development of the NTDB and substantiating its contribution to the Sector's objective in Part III of the Estimates (paragraph 17.7).

17.2 The sector has spent about $33 million on the NTDB since 1980, and estimates it will spend a further $95 million by the year 2000 (17.22).

17.3 Although the Sector is aware of the factors that could have an impact on the success of the NTDB, we have not seen evidence that the effects have been thoroughly analysed, or that the use of the data will justify the cost. Thus, we believe a more specific rationale and analysis of options should now be prepared (17.24).

Table of Contents

Paragraph

Introduction, Scope and Summary 17.4

Digital Mapping 17.8
    GIS users not adequately surveyed (17.14)
    The efficiency of digital mapping has not been proven (17.17)
    No mechanism for periodic review (17.20)

Conclusion 17.22

Exhibits

17.1
17.2 Creating Digital Data by Scanning 1:250,000 Scale Maps
17.3 Creating 1:50,000 Scale Maps and Data by Digital Stereocompilation

Department of Energy, Mines and Resources

Surveys, Mapping and Remote Sensing Sector

Introduction, Scope and Summary

17.4 We audited the Surveys, Mapping and Remote Sensing Sector of the Department of Energy, Mines and Resources. Its objective is "to provide a reliable system of surveys, maps, remotely sensed data and geographically referenced information describing the Canadian landmass" for use by clients, for the formulation of public policy, and to support internationally competitive Canadian enterprises (Part III 1990/91 Estimates).

17.5 The current Estimates show that the Sector has 964 person-years and a budget of $102 million, divided among four main components -- the Canada Centre for Mapping; the Canada Centre for Surveying; the Planning, Co-ordination, and Cartographic Services Branch; and the Canada Centre for Remote Sensing. As the Canada Centre for Remote Sensing is currently undergoing a program evaluation study and an internal audit, we did not include it in our audit.

Although the Sector has undertaken a number of studies, we could not find adequate plans and analysis guiding the development of the National Topographic Data Base and substantiating its contribution to the Sector's objective.

17.6 Surveying and mapping in Canada is a dynamic activity in a continually changing environment, especially because of the increasing use of computers and satellites, new uses of map data in geographic information systems, and the expanding roles of the provinces and private industry. We looked at how the Sector is adapting to major changes in surveying and mapping technology and to the completion of some of its original tasks. We paid particular attention to the largest centre, the Canada Centre for Mapping, which is in the process of completing the first-time topographic (or surface) mapping of Canada at a scale of 1:50,000, begun early in this century. As more maps are completed, the question arises as to how they should be revised, and how often

17.7 In general, we found appropriate operational management systems in place or being set up throughout the Sector. We saw indications that the Sector was starting to co-ordinate issues common to several of its Centres, such as the management of research and development projects. The Sector has also taken a leadership role in co-ordinating geomatics activities at the federal level and in developing co-operative programs with the provinces. Since our last audit in 1982, the Sector has made major changes -- such as creating the Canada Centre for Geomatics in Sherbrooke, contracting more work out to industry, and amalgamating the remote sensing with the surveying and mapping organizations. But in the course of dealing with these issues, planning for some others was deferred. in particular the development of the rationale for the National Topographic Data Base (NTDB). The NTDB attempts to deal with the question of how to produce or revise paper maps efficiently, while meeting the emerging need for digital map information. It is an expensive, long-term development affecting all parts of the Sector. Although the Sector has undertaken a number of studies, we could not find adequate plans and analysis guiding the development of the NTDB and substantiating its contribution to the Sector's objective as stated at the beginning of this chapter.

Digital Mapping

17.8 In this chapter we focus mainly on the processes for creating topographic information in paper or digital form. As Exhibit 17.1 shows, many kinds and types of topographic maps and images are produced by the Sector and other organizations. The NTDB will initially contain data at three levels of accuracy from several of the sources shown in Exhibit 17.1. The most accurate, which is stereocompiled 1:50,000 data, will be used in areas of high economic and strategic activity. Scanned 1:50,000 data will be used in the rest of southern Canada plus developed and strategic areas of the north. Scanned 1:250,000 data covers the whole country. (The terms "scanned" and "stereocompiled" are explained in Exhibits 17.2 and 17.3.)

17.9 Computers have the capacity to store, retrieve, merge and analyse sets of data aimed at meeting specific user needs. Before digital map files existed, cartographers were limited to what they could effectively portray on one sheet of paper, and made compromises to try to meet the needs of as many different users as possible within this constraint. With computers, there is a potential to serve a wider variety of needs, so long as the cost of collecting, updating and retrieving the data is justified.

17.10 The capacity for selective retrieval and analysis of map data and other types of information has created a whole new industry based on Geographic Information Systems (GIS). The electronic map becomes a reference source for geographical information about the land, what is on it or under it, or the people who live there. For example, companies use GIS to analyse marketing and distribution data about individual households; some municipalities are using GIS in urban planning or to help an ambulance find the fastest route to a hospital; provinces have developed GIS applications for resource management, even models to predict the spread of forest fires; and the federal government is developing GIS applications in a number of activities, like environmental protection.

17.11 The equipment and skills needed to create digital map files are expensive, and the technology is developing very rapidly, perhaps faster than the ability of users to harness it. Thus, in examining digital mapping we applied the criterion that the Sector should have carried out sufficient analyses on which to base its decisions, before proceeding with major expenditures in this uncertain market. Given the magnitude and the long-term importance of digital mapping, we looked for detailed statements of user requirements, cost benefit analyses of options, and comprehensive research and systems development plans.

17.12 In our opinion these have not been adequately prepared. The Sector believes that the rationale for its digital mapping effort is clear and well-supported although not, in all cases, fully documented; and that it is meeting the needs of federal government departments while creating a general purpose data base for broader use. We believe further studies and evaluations should have been done either to change or confirm the direction of the program. Our findings are summarized in the following paragraphs, and further detail can be found in Exhibits 17.2 and 17.3.

17.13 The Sector's experimentation with digital mapping started in the late 1960s. Since it has not been managed as a project, against criteria of time, cost and quality, the Sector cannot readily identify what it has cost to date. We estimate that since 1980 at least $33 million has been spent, but the Sector has not demonstrated that it is cheaper to produce paper maps by digital means, and has not determined how well the data base will meet the needs of federal clients and others. In our view, better analysis of costs, of specific user needs, and of the options available to them would lead to greater success in achieving the stated objectives of digital mapping - to meet GIS needs, and to produce and revise paper maps more efficiently.

GIS users not adequately surveyed

17.14 To support GIS applications, we expected to see detailed, up-to-date studies of user needs, dealing particularly with the effect that the growing provincial data bases will have on the demand for the Sector's products. Although the Sector is frequently in touch with user groups, the most recent general survey was in 1984. It did not include a detailed analysis of which users require particular data elements for particular areas of the country, in what format and at what levels of detail; or how frequently the information needs to be updated. We also expected the Sector to review the patterns of demand for paper maps before starting to produce digital products. The Sector has not analysed the use made of its paper maps, and the NTDB seems to be based on the assumption that there will be a continuing demand for conventional map information in digital form.

17.15 As a general-purpose data base the NTDB has encountered some problems, including data that are incomplete, out-of-date, and not sufficiently detailed or structured to meet some user needs. The Sector does not generally provide the "custom" data that various users have requested, for example just certain types of features like hydrography, elevations, or transportation routes, or just a particular region that does not match map sheet boundaries. The Department is now addressing these problems.

17.16 One rationale for having a general-purpose data base is to eliminate the need for different users to collect the same information over and over again. As technology reduces the cost of data collection, however, and as knowledgeable users become more selective in what they require, this may be done increasingly in the future. Thus the prospects for a cost-effective general-purpose data base may be narrowing. Many organizations in Canada besides the Sector now provide or are planning to provide geographic data. Some provinces that are creating centralized data bases require their departments to consider using the central data base before creating their own. At the federal level the Sector does not have this type of mandate.

The efficiency of digital mapping has not been proven

17.17 We expected the digital mapping process to have realistic targets for cost savings that would take into account research and capital costs, as well as operating costs. Although submissions for new capital equipment were justified on the basis of efficiency gains, targets were not set, and studies so far do not indicate that savings have been achieved.

17.18 Information for cost comparisons is not readily available. However, we did obtain some approximate figures, as shown in Exhibit 17.3. They suggest that the cost of producing paper maps from digital files is much higher than it was before digital methods were introduced.

17.19 The Sector deserves credit for starting to research more efficient ways of producing paper maps, rather than waiting until the market for digital data develops enough to support the full cost. Research is continuing into producing and revising paper maps from digital files, but we have not seen the rationale for creating a full national data base before the research is completed.

No mechanism for periodic review

17.20 We expected that management would have reviewed the digital program periodically to see whether user needs were being met and efficiency gains achieved. However, research into digital mapping and development of the NTDB were managed as ongoing responsibilities rather than as a series of pilot projects. This has led to an "all or nothing" approach in a fast-paced technological environment. The Sector did not draw a clear line between the development of the NTDB and its implementation. Although there were periodic operational reviews, the Sector did not set up strategic checkpoints at which to assess the fundamental purpose, costs and benefits of the NTDB. One such possible checkpoint --

completion of the 1:250,000 scanning program -- has just been passed. As discussed in Exhibit 17.2, the Sector has embarked on the much larger task of scanning 1:50,000 maps, in our view without taking full account of the lessons learned from the 1:250,000 program.

17.21 When the Sector began scanning the 1:250,000 maps on a production schedule in 1984, the technology for creating and revising paper maps from scanned digital files was not fully developed, and there was a lot of uncertainty about the form in which the digital data could or would be used. Today these matters still are not fully known. Because populating the data base is an expensive process, it might have been better to phase in production after these matters were resolved.

Conclusion

17.22 The Sector has spent about $33 million on the NTDB since 1980, and estimates that it will spend $95 million more by the year 2000. At that point, between 12 and 25 percent of map files will be available at the highest level of accuracy, with the rest available at lower levels of accuracy. The Sector then intends to continue upgrading the data base, the aim being to cover the land mass with the most accurate data.

17.23 In the meantime, many of the existing digital files and maps in southern Canada are more than five years old, and new files are being created faster than the older ones are being revised. The Sector is reviewing its revision policy, but the methods of revision and the costs and implications of various revision schedules have not been fully worked out yet. In order to create and update the NTDB efficiently, the Sector is also working closely with the provincial mapping programs and is considered to be a leader in the applications of remote sensing.

We believe a more specific rationale and analysis of options should now be prepared.

17.24 Although the Sector is aware of the factors that could have an impact on the success of the NTDB, we have not seen evidence that the effects have been thoroughly analysed, or that the use of the data will justify the cost. Thus, we believe a more specific rationale and analysis of options should now be prepared.

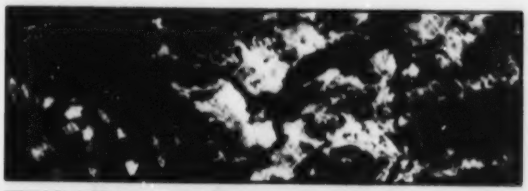
17.25 To ensure that the NTDB is soundly based in such a dynamic environment, the Sector should:

- **carry out a study to define the essential federal and national topographic data requirements in detail, and the costs and benefits of options for meeting these requirements; and**
- **identify and monitor strategic milestones and measurable benefits including efficiency gains for its digital mapping program over the next ten years.**

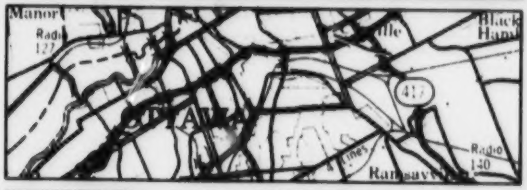
Department's response: *The Surveys, Mapping and Remote Sensing Sector is prepared to undertake the studies and analyses recommended by the Auditor General.*

Exhibit 17.1

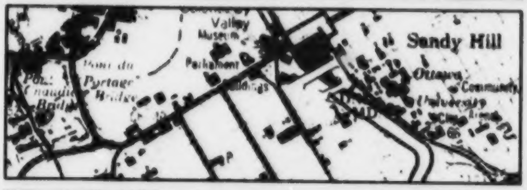
This exhibit shows some of the urban paper maps and images that are available from various sources including the Surveys, Mapping and Remote Sensing Sector. They illustrate the variety of map data on urban areas in Canada, collected and maintained for different reasons. All show the same locale at different scales, as though a helicopter were to move from the site at the bottom of the page higher into the air toward the top image. The variety of data illustrates the problem the Sector faces in defining an appropriate role for the National Topographic Data Base. The Sector has a pre-eminent position in producing smaller-scale data, but provinces, municipalities and other sources are providing larger-scale data that are more detailed and sometimes more up-to-date for much of the territory within the provinces. The Sector's current policy gives priority to mapping areas of high economic and strategic activity, which includes urban areas. In our opinion, the Sector should be cognizant of the effect new sources of data will have on its traditional markets for maps.



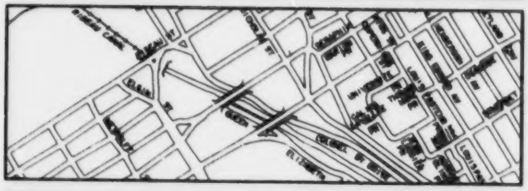
1:400,000 S.P.O.T. Satellite Image [© C.N.E.S., 1987]
Image created from digital data by
Energy, Mines and Resources
Canada Centre for Remote Sensing



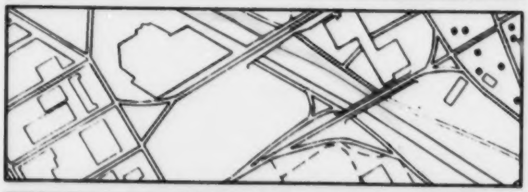
1:250,000 National Topographic System
Energy, Mines and Resources
Canada Centre for Mapping
Map produced by conventional cartographic means, but a digital file is available



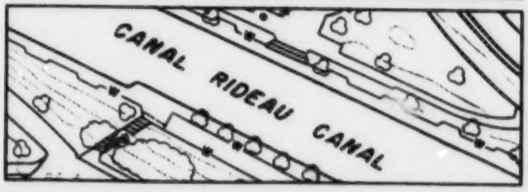
1:50,000 National Topographic System
Energy, Mines and Resources
Canada Centre for Mapping
Map produced primarily from a digital file



1:25,000 Ottawa-Carleton & Environs
Regional Municipality of Ottawa-Carleton/
National Capital Commission
Map produced from a digital file



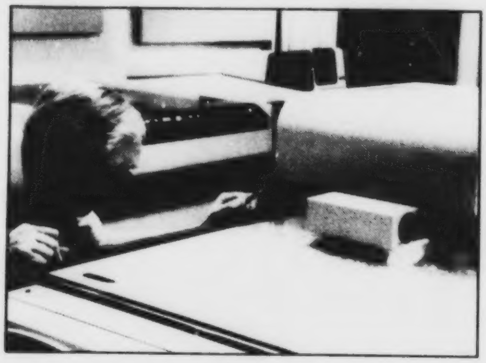
1:10,000 Ontario Base Map
Ministry of Natural Resources
Province of Ontario
Map produced from a digital file



1:2,000 Ottawa & Environs
National Capital Commission/
Regional Municipality of Ottawa-Carleton
Map produced from a digital file

Exhibit 17.2

CREATING DIGITAL DATA BY SCANNING 1:250,000 SCALE MAPS



Background: In the early 1980s, after several studies had indicated a wide general interest in digital data, the Sector decided to create a digital data base by scanning existing maps. The scanning process optically records information from a printed map in much the same way as a facsimile machine does with a typewritten page. The scanner records the graphic information systematically, line by line as a series of small bits of digital data. Assembled together, these bits of digital data record the entire graphic image. To completely cover the whole country quickly, the 1:250,000 scale map series was selected, comprising 917 maps. Scanning began in 1984 and was finished on schedule in 1989.

The cost of purchasing scanning hardware and software was reported under major capital projects as $2.5 million. This includes $500,000 in equipment to replace older equipment used in map making. It does not include the cost of smaller purchases of hardware and software, or the cost of the Sector's internal training, or software development. The Sector did not maintain a record of actual full project costs but it estimated the cost of scanning to be between $5,000 and $10,000 per map. We estimate the full cost (including the Sector development staff time) to be more than $10 million.

The Sector scans maps from existing print reproduction material. The scanned data goes through a multi-stage conversion process to produce a digital file. One purpose of the scanning process was to establish national topographic data which would serve as a common base for Geographic Information Systems.

Observations: In planning this project, we expected that the Sector would have consulted users about their detailed requirements, conducted a business case analysis, and established milestones against which to periodically assess the project. Although the Sector examined different means of scanning maps, there was inadequate cost/benefit analysis to quantify benefits or compare other methods of producing digital data.

By 1986, 16 percent of scanning was complete. The Sector wrote to the vendor asking for changes to the hardware and software in use. When the vendor was unable to comply, the Sector continued to scan data it knew was neither 'clean' nor structured to complete the program. The data was not 'clean' in that it had lines that didn't meet and polygons that didn't close, and the data was not spatially related. At the same time the Sector continued to develop and acquire software improvements to automatically clean the data. This development finished in 1989.

In the meantime, although some users were able to clean and use the data, others had trouble dealing with it. Some users hand-digitized from the printed maps; some scanned the data themselves using hardware and software more suitable to GIS; and some obtained the data from other sources.

Users need to know how current the data is, but the Sector does not provide this information to them. Particularly for urban GIS applications, timely data is important. Although some of the maps were significantly out of date, they were scanned without first being revised. This causes some users concern. For example, one user who acquired the data for Halifax in 1989 found that it had been scanned from a map last revised in 1966.

Although it scanned maps in several layers, each made up of a number of different features, the Sector decided not to distribute data in layers; most users had to take all or none. One layer with data showing the height of land above sea level was of particular interest in 1982 to a number of potential users, who were interested in creating digital elevation models or digital terrain models. The Sector is now working on the specifications for such a model.

People requesting the data were warned of its limitations and agreed to provide a report and evaluation of the data to the Sector. However, the Sector did not follow up on these evaluations until recently. Although about 200 people bought data sets, no documented evaluations were received prior to 1990/91.

(continued)

The Sector continues to spend money on the 1:250,000 database although the cost to clean the files and make them suitable for GIS applications has not been precisely determined. Today some scanned 1:250,000 files are being re-scanned. The Sector and other parties are experimenting with generalizing 1:250,000 map files from 1:50,000 map files. When fully developed, this process could replace the scanning process for some 1:250,000 maps.

Commentary: In summary, we have a number of concerns about this project:

- scanning proceeded before dealing with the issue of 'clean' data;
- scanning proceeded before some maps were updated;
- data on selected features and areas was not generally available to users;
- the Sector did not follow up on user feedback during the 5 year program; and
- scanning of all data and all maps for the entire country proceeded before knowing the full cost and before determining the real need.

The Sector has embarked on another round of hardware and software acquisition and development aimed at scanning 1:50,000 maps. In our view, the Sector should first have analysed the lessons learned from the 1:250,000 scanning program. There is no question that the Sector should take advantage of computer technology. However, as noted above, there are many options to choose from in deciding how to go about it and how much data to digitize. To make the necessary tradeoffs, management needs detailed information on the costs and benefits of each alternative.

Exhibit 17.3

CREATING 1:50,000 SCALE MAPS AND DATA BY DIGITAL STEREOCOMPILATION

Background: Digital stereocompilation is an accurate but expensive process of digitally recording topographic information from aerial photographs. When the operator of the stereocompiler views two aerial photographs of the earth's surface taken a short distance apart, they appear to be three-dimensional. The stereocompiler digitally records the relative positions and elevations of points selected by the operator. The data file thus produced can be used as input to the printing of a paper map or, after it is structured, can be manipulated for GIS applications.

The Sector began experimentally producing 1:50,000 map files by digital stereocompilation in 1979/80, and has completed 587 to date at an estimated cost of $23 million. The Sector estimates that the average cost of producing a digital file and a paper map in southern Canada is about $75,000. Costs are generally higher in urban areas, but lower in other parts of the country. Files sell for $500 each.

Plans call for another 1000 of the 13,000 map sheets in this series to be stereocompiled by the year 2000, at a cost of about $79 million (current year dollars). These files cover areas of high economic and strategic activity, generally along Canada's southern border. Where practical, the Sector will

(continued)

share the cost of obtaining data jointly with provincial mapping agencies working in some of the same areas, or perhaps buy data from them.

Observations: As far as we can determine, the creation of the files to date has not been managed as a research project with specific goals, milestones, and an end point. Generating files for the NTDB is considered an ongoing responsibility to produce and revise paper maps more efficiently and to meet user needs for data.

To our knowledge there has not been a study demonstrating efficiency gains from this process for making or revising paper maps. Nor was there a cost/benefit analysis comparing this method with other options for producing digital files and paper maps. We did find some cost figures for analogue (or conventional) mapping in a 1978 report, which we compared to figures for digital mapping in a 1988 study. These suggest that in the ten-year period from 1978 to 1988 the cost of a stereocompiled map in southern Canada increased, as the process changed from analogue to digital. Although we are not able to determine the exact amount of the increase, it would appear to exceed 35 percent or $25,000 per map file (after adjusting for inflation). Costs appear to have increased more for digital stereocompilation than for making and revising other types of maps by analogue means. This suggests there has not been an efficiency gain from digital stereocompilation, when all the steps in the current process and all the costs are taken into account. But the issue needs further study.

Such a study should also examine the extra benefits from the digital file created by the new process. One way this could be done is to compute a break-even point for the sale of files. Using the $25,000 figure shown above for illustrative purposes, and the price of $500 per digital file, the extra cost would be recovered if the Department were to sell at least 50 copies. Some files are now being revised, which would raise both the total cost and the break-even point. On the other hand, including indirect benefits to users would reduce this number.

We found that so far the demand for these files has been relatively low, perhaps in part because many potential applications are still in the experimental stages. Although some files have existed since 1980, their availability was not advertised except through technical papers at conferences and seminars. We estimate that no file has sold more than 20 copies, and very few have sold more than five. A number of users have experimented with 1:50,000 digital stereocompiled files, including federal government departments. Some find them useful, and others have encountered problems with data quality and currency. For example:

- The Department of National Defence uses NTDB data to produce Training Area Maps for about 20 areas in Canada, and plans to use the data for other purposes.
- Environment Canada has been experimenting with NTDB files for several projects along the shoreline of the St. Lawrence river and the Great Lakes. For example, the Environmental Emergency Program in Ontario purchased 80 1:50,000 files and the Water Planning and Management Branch purchased 88. Neither is yet able to use the data, either to produce a paper map or for GIS applications, but one pilot project is underway.
- Statistics Canada has been experimenting since 1982 with NTDB digital information to create Area Master Files for the census, but has found that it does not meet its needs efficiently Typically, data is captured from maps at scales larger than 1:50,000 and the digital files must be regularly updated. Statistics Canada prefers provincial or municipal data for urban areas because it is more detailed or more current. It could use 1:50,000 scanned or stereocompiled data (in the proper format) in less populated areas, but so far these regions have not been EMR's priority. Statistics Canada will not be using any 1:50,000 digital files in map production for the census, but it will be using other EMR information for place names and geographical reference points.

Commentary: For some applications, there are other sources of larger-scale or more current data that may affect the demand for the 1:50,000 digital series. Because of this, and the high cost of file creation and revision, we are concerned that urban GIS applications may not be an appropriate market for it. In our view, the Sector has not adequately defined its 1:50,000 digital users nor has it justified the cost of producing the product.

18

Department of the Environment

Department of the Environment

Main Points

18.1 The Department's program evaluation coverage is inadequate; it has evaluated less than 10 percent of its programs. For example, it has not evaluated any of the Canadian Parks Service programs even though it has half the Department's person-years and a $387 million budget (paragraphs 18.28 to 18.33).

18.2 The deficiencies in coverage could have serious environmental consequences. The Ocean Dumping and Marine Program evaluation was not done until 1988, 13 years after the program was implemented. The evaluation indicated serious problems that may have existed since the program's inception (18.39 to 18.43).

18.3 The quality of the evaluations that are done is inadequate; of the five examined, only the Ocean Dumping and Marine Program was satisfactory. This raises questions about the extent to which management and Parliament can rely on the findings of the Department's evaluations that are supposed to measure the effectiveness of the Department's programs (18.34 to 18.38).

18.4 Serious deficiencies in the effectiveness of the Ocean Dumping and Marine Program were significantly understated when presented to Parliament in Part III of the 1990/91 Estimates (18.44 to 18.46).

18.5 Co-ordinated environmental action, including enforcement by all levels of government, is difficult. This is due in part to the jurisdictional complexities of federal and provincial responsibilities deriving from Canada's constitution. Within the federal government, responsibilities for environmental matters rest with many departments and agencies. This raises the question both of the role of the Department of the Environment and of which level of government is ultimately responsible for Canada's environmental well-being (18.50 to 18.59).

18.6 The Canadian Environmental Protection Act of 1988 provides for agreements to be negotiated between the federal and provincial governments concerning the regulation and enforcement of toxic substances. No agreements had been signed when this report was written (18.64 to 18.67).

18.7 In one area where the federal government has already delegated monitoring and enforcement authority to the provinces, there has been a serious deterioration in compliance. A review of the metal mining liquid effluent regulations, issued under the Fisheries Act, indicates that compliance fell from 85 percent in 1982 to 48 percent in 1988. Nine out of 20 mines not complying in 1988 exceeded the standards by 200 percent (18.71 and 18.72).

18.8 The Minister of the Environment is required to report annually to Parliament on the administration and enforcement of the Canadian Environmental Protection Act. No report had been presented from the time the Act was proclaimed in June 1988 until 30 June 1990 when we wrote this report (18.74 and 18.75).

Table of Contents

Paragraph

Introduction 18.9

Audit Scope 18.16

Management of Corporate Services

- **Policy Development** 18.20
  - Policy development capabilities have been enhanced (18.20)
- **Program Evaluation** 18.21
  - Introduction (18.21)
  - Benefits of senior management review (18.25)
  - Program evaluation coverage is inadequate (18.28)
  - Quality of evaluations is unsatisfactory (18.34)
  - Environmental consequences are potentially serious (18.39)
  - Program deficiencies were seriously understated to Parliament (18.44)

Jurisdictional Complexities and Environmental Responsibility

- **Background** 18.47
- **Federal-Provincial Complexities** 18.50
- **Co-ordination Within the Federal Government** 18.55
- **Consequence of Divided Responsibilities** 18.58

The Canadian Environmental Protection Act

- **Background** 18.60
- **Slowness of CEPA Implementation** 18.62
  - Assessment of priority substances is a formidable task (18.62)
  - Lack of equivalency and administrative agreements (18.64)
- **Enforcement and Compliance Policy Has Been Developed** 18.68
  - Maintaining accountability is difficult (18.70)
  - Failure to report to Parliament (18.74)

Lack of a Comprehensive Environmental Strategy 18.76

Exhibits

18.1 Departmental Organization Chart
18.2 Previous Environmental Observations in the Auditor General's Annual Reports
18.3 Examples of Shared Responsibilities

Department of the Environment

Introduction

18.9 The Department of the Environment was created in 1971 during a wave of public concern about environmental degradation and depletion of our natural resources. Significant new legislation on environmental contaminants and protection of air and water resources, and guidelines for environmental impact assessment soon followed.

18.10 The Department's responsibilities now include:

- co-ordination of federal policies and programs for the preservation and enhancement of the quality of the natural environment;
- provision of scientific research, information, monitoring, regulatory services and environmental protection related to wildlife, water resources and meteorology;
- enforcement of rules and regulations made by the International Joint Commission relating to boundary waters; and
- protection and presentation of national parks, national historic sites and historic canals.

The Department's organizational structure to carry out these responsibilities is illustrated in Exhibit 18.1.

18.11 The Conservation and Protection Service is responsible for:

- promoting environmentally sound use and management of Canada's water and land resources, migratory birds, threatened and endangered species, and other national and international wildlife issues;
- contributing to the protection of the environment by applying federal authority in preventing, reducing or eliminating adverse environmental effects resulting from pollutants and the use of hazardous substances and by restoring contaminated sites; and
- promoting the development and application of technology and other measures to preserve and enhance environmental quality and achieve sustainable development.

18.12 The Atmospheric Environment Service provides weather forecasts and information on climate, ice and air quality. It also monitors airborne pollution.

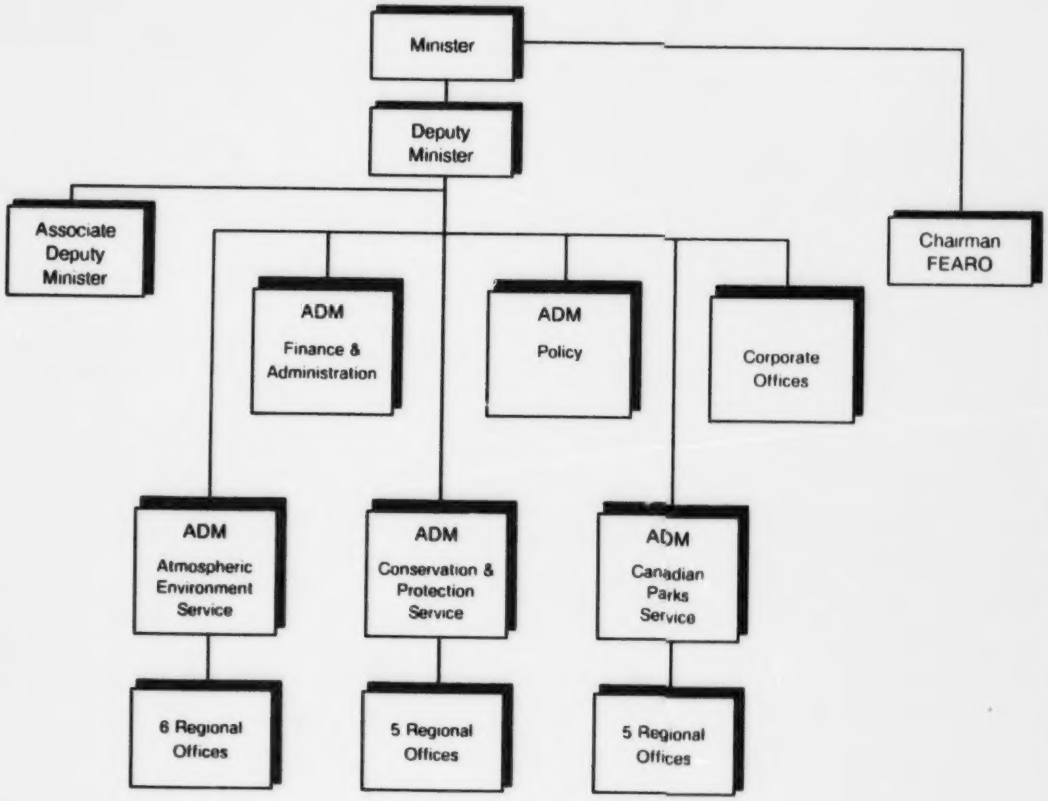
18.13 The primary role of the Canadian Parks Service is to protect and present nationally significant representations of Canada's natural heritage. This includes developing and administering national parks, national historic sites, historic canals and heritage rivers.

18.14 The Federal Environmental Assessment Review Office (FEARO) administers the Environmental Assessment and Review Process. This process requires each federal government department to carry out an initial assessment of its programs, projects and activities to determine whether they will have any adverse environmental impacts. If the impacts of a project are likely to be significant, it is referred to the Minister of the Environment for review by a public environmental assessment panel. FEARO provides the panel secretariat and, in consultation with the initiating department, develops the terms of reference for the panel review.

18.15 In June 1990. the government tabled the proposed Canadian Environmental Assessment Act. The proposed Act contains significant changes to the current environmental review process including the establishment of an independent Canadian Environmental Assessment Agency.

Exhibit 18.1

DEPARTMENTAL ORGANIZATION CHART


Minister
Deputy Minister
Associate Deputy Minister
Chairman FEARO
ADM Finance & Administration
ADM Policy
Corporate Offices
ADM Atmospheric Environment Service
ADM Conservation & Protection Service
ADM Canadian Parks Service
6 Regional Offices
5 Regional Offices
5 Regional Offices

Audit Scope

18.16 We audited the aspects of the Department's corporate services that are important to the efficient and effective delivery of its programs. Specifically, we looked at policy development, planning, program evaluation, financial planning and reporting, informatics management, internal audit and human resource management. We have reported only those observations which we believe should be brought to the attention of Parliament. We have reported any other observations direct to the Department.

18.17 As part of our planning for future audit work, we reviewed the Department's relationships with the provinces and with other departments in carrying out its responsibilities for implementing federal environmental legislation. We focussed mainly on the implementation of the Canadian Environmental Protection Act. Specifically, we looked at how the Department determines which substances are toxic and how it reaches agreements with provinces to provide efficient and effective control over the storage, transportation, emission and disposal of toxic substances. We also began a review of the Department's enforcement responsibilities.

18.18 Although our work in this area is preliminary, we believe there are some significant issues that should be brought to Parliament's attention now. As we continue our work, we will report the results in future years.

18.19 Past annual reports have identified environmental issues in several departments resulting from our periodic audits of the programs and activities of these organizations. Exhibit 18.2 contains some examples of previous observations on environmental matters. Action has been taken by the Departments to resolve the difficiencies noted for the two 1988 examples and the 1989 Ocean Dumping Regulatory Program. In 1991, we will follow up and report on the two remaining 1989 observations.

Management of Corporate Services

Policy Development

18.20 Policy development capabilities have been enhanced. The policies of the Department of the Environment have a potential for affecting not only the environment but also the economic and social fabric of the country. To adequately address such issues as sustainable development and cost effectiveness of environmental policies, the Department has reorganized its Corporate Policy Group and bolstered its capabilities in the area of economic analysis.

Program Evaluation

18.21 Introduction. Government organizations cannot look at profitability as a "bottom line" in evaluating their operations the way private sector organizations do. Senior

Exhibit 18.2

PREVIOUS ENVIRONMENTAL OBSERVATIONS IN THE AUDITOR GENERAL'S ANNUAL REPORTS

Report of the Auditor General of Canada

1989

Paragraph 3.44

Maurice Lamontagne Institute

"... liquid chemical and biological wastes are only diluted before being emptied into the St. Lawrence River."

Paragraph 17.66

Ocean Dumping Regulatory Program

"... very little monitoring of Canadian disposal sites has been done and, as a consequence, there is no way of knowing whether or not an adverse impact has occurred."

Paragraph 22.54

"At present, the Coast Guard has not developed the capability to deal with spills or accidents involving hazardous materials other than petroleum products ..."

Report of the Auditor General of Canada

1988

Paragraph 7.15

Canadian Forestry Service

"... CFS estimates that the amount of unsatisfactorily restocked forest area continues to increase, although at a slower rate."

Paragraph 8.51

Department of Agriculture

"... the Pesticide program needs to strengthen the current procedures for registering and regulating pesticides, to have a basis for providing reasonable assurance that all pesticide products used in Canada are effective and pose minimal or no risk to human health and the environment ..."

management must therefore use other means to determine whether programs and activities have been carried out with due regard for economy, efficiency and effectiveness.

18.22 One important source of this additional information is program evaluation. It can provide information that management requires to answer two very basic questions: "Are we doing the right things?" and "Are we doing things right?"

Program evaluation has important benefits.

18.23 The high level of public concern about environmental matters puts pressure on the government to allocate more resources to environmental protection activities and to alter resource allocations within existing programs. Credible program evaluations can provide valuable insight concerning the effectiveness of existing programs and the changes that should be made to them.

18.24 The Office of the Comptroller General's guide on the evaluation of programs describes it as follows:

> *"Program evaluation in federal departments and agencies should involve the systematic gathering of verifiable information on a program and demonstrable evidence on its results and cost-effectiveness. Its purpose should be to periodically produce credible, timely, useful and objective findings on programs appropriate for resource allocation, program improvement and accountability."*

18.25 **Benefits of senior management review.** An evaluation committee of senior managers can make an effective contribution to better management of a department. By meeting as often as necessary to review and discuss program evaluation reports, these committees can help in assessing the effectiveness of a department's programs and the efficiency of its operations.

18.26 The committee can ensure that program evaluation resources are directed to activities that need them and guide and monitor corrective action to be taken once evaluations are completed.

18.27 The Department has not had such a committee for several years. However, in February 1990, an evaluation committee was established.

18.28 **Program evaluation coverage is inadequate.** If they are to provide timely and useful information on the effectiveness of programs, evaluations should be carried out on all significant programs within a reasonable period of time. Current guidelines and directives call for evaluation of all major components of a program about once every five to seven years.

18.29 Prior to 1990, the resources allocated to program evaluation were two person-years and one secondment and $174,000. In February 1990, the resources were increased to five person-years and $250,000.

18.30 We examined the Department's program evaluation performance for the five-year period from 1984 to 1989. Only seven program evaluation reports were completed covering less than 10 percent of the Department's activities.

There is a need for better program evaluation coverage.

18.31 Many of the Department's significant program activities were not evaluated. For example, no program evaluations have ever been done of the Canadian Parks Service which has approximately 5,000 person-years and a budget of $387 million.

18.32 If evaluation activity continues at the present level, many major programs or activities will not be evaluated in the near future. As a result, management and Parliament will not have the information they need to judge the effectiveness of many of the Department's major programs and activities. This weakens the Department's accountability to Parliament for the results it achieves.

18.33 The Department should improve its program evaluation coverage to ensure that all its significant programs are evaluated in a timely manner.

18.34 Quality of evaluations is unsatisfactory. Program evaluations may significantly affect decisions about the management and even the continued existence of a program. Therefore, it is essential that evaluations be conducted in such a manner that the findings are credible.

18.35 We reviewed the quality of five of the seven program evaluations prepared from 1984 to 1989. We concluded that it was satisfactory for only one of the five, the Ocean Dumping and Marine Program.

Credibility is impaired.

18.36 We found serious problems in the remaining four evaluations. The following are some of the typical deficiencies we uncovered:

- For the Industrial Effluent and Emission Controls and Commercial Toxic Chemicals Program, there were inadequate data on compliance with existing regulations used in the evaluation.
- For the Canada Water Act and Funding, and the Lands Directorate, the conclusions of the two evaluations were not supported by the evidence presented in the evaluation reports. Neither report was complete, nor were the analytic methods clear.
- The evaluation of the Climate Services and Research Program was substantially better than the other three in many respects. However, it too contained deficiencies. For example, the report did not provide strong evidence as to how and to what extent the program is achieving its stated objectives overall. The overall quality of the evaluation was unsatisfactory.

18.37 The unsatisfactory quality of these evaluations raises serious questions about the extent to which departmental officials and Parliament can rely on them.

18.38 The Department should improve the quality of its program evaluations by ensuring that they are complete, that conclusions are supported and that analytical methods are clear.

18.39 Environmental consequences are potentially serious. The deficiencies noted in the Department's program evaluation coverage and quality could have potentially serious environmental consequences.

18.40 For example, the Ocean Dumping Control Act was proclaimed in 1975, and until 1988, the Department apparently had no knowledge that there were problems with the program. In Part III of its 1987 88 Estimates, the Department reported to Parliament that:

> *"the permit system required under the Ocean Dumping Control Act for legal dumping has provided for effective environmental operating conditions to ensure the maintenance of marine environmental quality."*

18.41 We found no evidence that the Department had any scientific basis for this statement.

18.42 An evaluation of the scientific and technical support for that program was done in 1988, 13 years after the program started. The final report, submitted in 1989, was critical of the scientific support for the program and of the Department's monitoring of dump sites and dumping activity. The evaluation found that:

- "There is virtually no monitoring of disposal sites for short or long term effects."

- "There is inadequate scientific capacity to provide the support necessary for the program."
- "The program has permitted dumping in excess of scheduled limits on a regular basis, under the "rapidly rendered harmless" provisions of the Act. There has been no scientific substantiation for this practice in the Canadian context."

Department's response: *The Department agrees that monitoring and scientific support need to be strengthened; an Action Plan is being pursued. When the Department issues permits in excess of scheduled limits, it does so under the provisions of Section 71(3) of the Act only after receiving a scientific opinion which includes the views of the Department of Fisheries and Oceans and which indicates that no environmental problem will result.*

Accountability requires credibility.

18.43 Had the Department evaluated the program sooner, the deficiencies noted, if they existed at that time, could have been addressed earlier. Although the Department has a corrective action plan to improve scientific support and monitoring under the Ocean Dumping and Marine Program, it has not yet been implemented. The Department has indicated that this is due primarily to resource constraints. In the interim, the Department continues to issue ocean dumping permits despite the inadequacies noted in the 1988 evaluation.

18.44 Program deficiencies were seriously understated to Parliament. One important purpose of program evaluation is to provide information to Parliament on the effectiveness of government programs. Departments are required to report significant findings in Part III of the Estimates. The Department's presentation of the findings of the evaluation of the Ocean Dumping and Marine Program in the 1990/91 Estimates did not fully reflect the criticism contained in the evaluation report itself as described previously in paragraph 18.42.

18.45 In our opinion, the Department's failure to report fully these significant evaluation findings in Part III of the 1990/91 Estimates could have an adverse effect on the Department's credibility in the minds of both Parliamentarians and the public, about the effectiveness of its programs.

18.46 The Department should report the results of program evaluations to Parliament in a fair and balanced manner.

Department's response on Program Evaluation: *The Department acknowledges that its program evaluation function has been deficient. This stems from the requirement to develop new environmental policies for the government, including the Canadian Environmental Protection Act, and the need to undertake, simultaneously, a series of intensive management reviews which have preoccupied the Department's senior management in recent years.*

A number of actions have been taken to address the issues. A Departmental Program Evaluation Committee chaired at the Deputy Minister level has been established. The resources allocated for program evaluation were substantially increased in 1990/91, with further increases scheduled in subsequent years. Finally, the Department's policies and procedures for program evaluation are under review with the objective of upgrading them to achieve a rigorous and fully professional program evaluation process in the Department.

Jurisdictional Complexities and Environmental Responsibility

Background

18.47 It is virtually impossible to overstate the seriousness of current environmental problems facing Canada and the world. Man-made substances have contaminated almost every part of the biosphere and affect almost every aspect of our daily lives. Whether the damage is reversible or not is still a matter of debate. However, environmental groups and the general public believe that governments at all levels must take immediate, co-ordinated and decisive action to halt further deterioration of the environment and to minimize risk to the survival of all species.

18.48 Well-publicized environmental emergencies such as the PCB fire at St-Basile-le-Grand, Quebec, the Hagersville tire fire in Ontario, and the Nestucca oil spill on Canada's Pacific coast illustrate the complexity of environmental issues and the importance of multi-jurisdictional co-operation in managing them.

18.49 In many emergency situations, the Department must work with other countries as well as with the provinces and one or more other federal government departments. These situations can occur with a spill that affects fish habitats, federal property, navigable waters or crosses provincial or international boundaries.

Federal-Provincial Complexities

18.50 The original Constitution Act (British North America Act) of 1867, and the Constitution Act, 1982, say nothing about the environment. Consequently, over time, as public concern over environmental issues has increased, the federal and provincial governments have sought to identify and meet their responsibilities. In several cases, the courts have been called upon to interpret how the Constitution's division of powers between the federal and the provincial governments applies to environmental issues.

Is Canada's Constitution environmentally friendly?

18.51 The provinces have jurisdiction over property and civil rights. This means they may regulate land use and most aspects of manufacturing and other business activity, including regulation of the storage, transportation, emission and disposal of toxic substances that could pollute the environment. The provinces also have jurisdiction over natural resources and most mining, lumbering, pulp and paper and manufacturing activities. This means that the major decisions on the extent to which the use of those resources degrades the environment are made by the provincial governments. The provinces may also use their powers over taxation to provide incentives or penalties for the regulation and control of pollution.

18.52 The following are constitutional powers and jurisdictions under which Parliament can act to ensure the proper management of the environment:

- power over seacoast and inland fisheries which permits federal action against pollution of the waterways concerned;
- power over navigation and shipping which permits the regulation of the activities of ships such as the discharge of oil and other substances;
- jurisdiction over interprovincial and international rivers, where pollution, flooding, etc. in one province will be carried into another province or country;
- power over industries under federal jurisdiction such as aviation, nuclear power, and interprovincial transportation and communications; and
- jurisdiction over federal lands;
- taxing power to penalize individuals or industries for the use of polluting substances or induce industry to use more environmentally friendly products or processes;

- criminal law power, which could be used, for example, to regulate activities dangerous to health; and
- the "peace, order and good government" clause, which provides power that may be used to
  - establish measures to control the pollution of air and water where the matter at issue is one of national concern and lies beyond the capacity of the provinces to deal with it effectively, or
  - establish temporary measures to address national emergencies.

18.53 Recent court rulings regarding environmental assessments have shown the scope of the federal government's authority to require environmental concerns to be addressed in new projects. For example, in the Rafferty-Alameda and Oldman River cases, the courts interpreted federal authority for environmental assessments to extend beyond the government's own expectations and practice. They ruled that the 1984 Environmental Assessment Review Process Guidelines Order must be treated as mandatory. That is, if a project, including a provincial one, has a potentially significant environmental impact and requires a federal decision, the federal government must carry out an environmental assessment review before the project is undertaken. These rulings have resulted in a substantial increase in the number of reviews to be carried out.

18.54 New environmental legislation was introduced in the House of Commons in June 1990 which proposes to change the way environmental assessments are administered. The government expects this legislation to have a significant impact on the scope and number of assessments and the resources required to carry them out.

Co-ordination Within the Federal Government

18.55 The range and complexity of environmental issues is evident from the quantity of federal legislation which has evolved. Within the federal government, some 24 departments have responsibilities relating to more than 50 Acts with environmental implications. The Department of the Environment alone has responsibilities under 36 Acts (Exhibit 18.3). In 1987, there were about 100 provincial statutes in the same field. Much of this legislation is supported by regulations.

18.56 Much of the federal government's jurisdiction over the environment derives from its constitutional powers over specific matters such as shipping, fisheries, and industries under federal jurisdiction. The departments that are responsible for these matters generally consider themselves to be responsible for their environmental aspects as well.

18.57 This means that the Department of the Environment, which has general responsibility for co-ordinating federal policies and programs directed at the preservation and enhancement of environmental quality, cannot act effectively on broad government-wide environmental issues except in concert with these other departments. While some memoranda of understanding exist between the Department of the Environment and various other departments, there is currently no comprehensive mechanism for a co-ordinated federal approach to environmental issues.

Is anyone in charge of Canada's environmental well-being?

Consequence of Divided Responsibilities

18.58 The consequence of these federal-provincial and interdepartmental divisions in responsibility for environmental matters is a patchwork that makes it almost impossible to assign public accountability for safeguarding Canada's environment. There is no focal point of responsibility or accountability to the Canadian people in respect of this critical issue.

Exhibit 18.3

EXAMPLES OF SHARED RESPONSIBILITIES

Federal jurisdiction in environmental matters is not confined solely to the Department of the Environment.

Other Federal Government Agencies

Acts Administered by Environment Canada	Indian Affairs & Northern Development	National Health & Welfare	Consumer & Corporate Affairs	External Affairs	Fisheries & Oceans	Transport	Energy, Mines & Resources	Canada Mortgage & Housing Corporation	Royal Canadian Mounted Police	Agriculture
The Canada Water Act					*					
The Canada Wildlife Act									*	
The Canadian Environmental Protection Act		*								
The Department of the Environment Act										
The Environmental Contaminants Act										
The Game Export Act									*	
The Heritage Railway Stations Protection Act										
The Historic Sites and Monuments Act										
The International River Improvements Act				*	*					
The Migratory Birds Convention Act				*					*	
The National Battlefields at Quebec Act									*	
The National Parks Act									*	
The Weather Modification Information Act										
The Lac Seul Conservation Act										
The Lake of the Woods Control Board Act										
The Canadian Environment Week Act										
The Mingan Archipelago National Park Act										
The National Wildlife Week Act										
Other Acts Affecting or Partly Administered by Environment Canada										
The Agricultural and Rural Development Act										
The Animal Disease and Protection Act									*	
The Arctic Waters Pollution Prevention Act	*				*	*	*			
The Canada Shipping Act					*	*			*	
The Fisheries Act (Section 36, Effluents)					*				*	
The Motor Vehicle Safety Act						*				
The National Energy Board Act						*	*		*	
The National Housing Act								*		
The Navigable Waters Protection Act					*	*			*	
The Northern Inland Waters Act	*				*				*	
The Pest Control Products Act					*					*
The Resources and Technical Surveys Act					*		*			
The Territorial Lands Act	*									
The Transportation of Dangerous Goods Act						*	*		*	
The Hazardous Products Act		*	*						*	
The Energy Supplies Emergency Act							*			
The International Boundary Waters Treaty Act				*	*					
The Department of Transport Act (Canals)						*				

18.59 Canada's governments are still seeking, through such efforts as the creation of the Canadian Council of Ministers of the Environment and the Canadian Environmental Protection Act, the means to act together to protect Canada's environment.

The Canadian Environmental Protection Act

Background

18.60 The Canadian Environmental Protection Act (CEPA) of 1988 provides an opportunity for federal-provincial co-operation on the management of toxic substances. The Act gives the federal government power to protect human health and the environment from risks associated with toxic substances. For example, it authorizes regulation of emissions that cause "acid rain". It also allows import and export restrictions or limits on the use of substances such as chlorofluorocarbons (CFCs), which are believed to harm the ozone layer, and polychlorinated bi-phenols (PCBs).

The Canadian Environmental Protection Act provides an opportunity for federal-provincial co-operation in the management of toxic substances.

18.61 The Act emphasizes the necessity of national standards and the need to avoid conflict and duplication among the federal, provincial and territorial governments, as follows:

- The federal government must try to co-operate with provincial governments. The Act provides for federal-provincial agreements which would help ensure that both levels of government work effectively and efficiently to protect the environment.
- The Minister of the Environment is required to establish a federal-provincial advisory committee. Its primary aim is to establish a framework for national action and co-operation to prevent conflict between, and duplication in, federal and provincial regulatory activity. The Committee was established in July 1988.

Slowness of CEPA Implementation

18.62 **Assessment of priority substances is a formidable task.** Much of the Department's regulatory agenda for the next four years will be driven by the CEPA Priority Substances List. This list, published in February 1989, identifies 44 substances that must be assessed within five years. If a substance is found to be toxic, which means potentially harmful to the environment or human life, the Minister is required under the Act to regulate it. At the time of our review and about a year after they had been placed on the list, testing had been completed for only dioxins and furans.

Are the time-frames realistic?

18.63 Meeting the Act's time requirements will mean that, beginning in November 1990, one priority substance assessment report must be completed each month for 32 consecutive months. Similarly, while the Department developed approximately 20 environmental protection regulations in the first 19 years of its existence, the current plan will require it to create about 20 new regulations a year for the next three years. The magnitude of this work volume raises questions about how realistic the time-frames are.

18.64 **Lack of equivalency and administrative agreements.** CEPA provides for administrative and equivalency agreements with the provinces and territories as one mechanism for achieving federal-provincial co-operation. The aim of administrative agreements is the establishment of work sharing partnerships relating to federal and provincial legislation. These cover a range of administrative activities from research and monitoring to inspection and enforcement. One administrative agreement can be established with each province and territory.

The number of equivalency agreements could be significant.

18.65 Equivalency agreements are unique in federal environmental legislation. The concept was developed as a result of extensive federal-provincial consultation during the drafting of CEPA. The agreements provide that federal regulations under CEPA cease to apply in a province or territory where provincial regulations having equivalent effect are in place. The criteria to be used in determining equivalency are whether the regulations have:

- an equal level of control as sanctioned by law;
- comparable compliance measurement techniques;
- comparable penalties;
- comparable enforcement policies and procedures that are consistent with the enforcement and compliance policy for CEPA; and
- comparable rights for individuals, resident in Canada, to request investigation of a suspected offence and to receive a report of the findings.

18.66 The number of equivalency agreements with provinces and territories could be significant, if all 44 priority substances were found to be toxic and had to be regulated. The number of agreements will also depend on the number of provinces and territories involved with any particular substance.

18.67 No administrative or equivalency agreements have been concluded since CEPA came into force in June 1988.

Enforcement and Compliance Policy Has Been Developed

18.68 The Department of the Environment, in co-operation with the Department of Justice, has developed an enforcement and compliance policy for CEPA. The emphasis is on preventing environmental damage before it occurs and on ensuring consistent and fair enforcement across Canada. Measures to promote compliance with the Act include communication and publication of information, consultation with parties affected by the Act, and technical assistance and technology development. Enforcement activity includes:

- inspection and monitoring to verify compliance;
- investigation of violations;
- measures to encourage compliance without court action; and
- court action; under CEPA, polluters may be fined up to $1 million a day, or more if they have made profits from their polluting activities. Corporate officials can also be prosecuted if they authorize or participate in an activity that violates the Act.

Is enforcement adequate?

18.69 In 1989 90, the Department carried out 3,412 inspections under CEPA. Almost 50 percent (1,620) of these inspections focused on PCB and contaminated fuel regulation compliance concerns which assumed particularly high significance during the year. The inspection and investigation effort led to 280 enforcement actions: 266 warnings, 8 directions, 3 prosecutions and 3 convictions.

18.70 Maintaining accountability is difficult. The Department is currently reviewing its partnership arrangements with the provinces and territories with a view to developing "umbrella" accords on a range of environmental concerns, including and going beyond CEPA and the Department's responsibilities under the Fisheries Act. One aim will be to strengthen the arrangements for ensuring that delegation of enforcement authority to the provinces does not undermine the Department's ultimate accountability for enforcement of federal environmental legislation. As recently as March 1990, the Canadian Council of Ministers of the Environment pledged inter-jurisdictional co-operation in environmental matters.

18.71 Experiences with delegated authority have not always been satisfactory. For example, the Department has had an unsatisfactory experience with enforcement of metal mining liquid effluent regulations under the Fisheries Act, which it has largely delegated to provincial enforcement agencies.

18.72 In 1988, the Department issued a status report for the year 1986, which showed a marked deterioration in compliance by mines with the Act. By 1988 the number of mines in compliance with the regulations had fallen to 48 percent compared with 60 percent in 1986 and 85 percent in 1982. Nine out of 20 mines which were not complying in 1988 had exceeded effluent standards by 200 percent.

18.73 This is an example of the type of situation that raises questions in the minds of the Canadian people about which level of government is truly responsible for the quality of the environment.

18.74 Failure to report to Parliament. Under section 138 of CEPA, the Minister of the Environment is required to report to Parliament on the administration and enforcement of the Act as soon as possible after the end of each fiscal year. Each annual report is required to include information on the activities of the federal-provincial advisory committee, and on the administration of CEPA as it relates to agreements with the provinces and territories

Has Parliament received adequate information concerning the implementation of the Canadian Environmental Protection Act?

18.75 At the time of our review, the first report had not yet been presented to Parliament, more than two years after CEPA was passed by Parliament.

Lack of a Comprehensive Environmental Strategy

18.76 In the late summer of 1989, the government announced it would release its environmental strategy early in 1990. This was postponed. Instead, in March 1990, the government published "A Framework For Discussion On The Environment" Its purpose was to canvass the views of Canadians on environmental priorities and ways of achieving sustainable development. The discussion document summarizes the issues to be addressed in the government's environmental strategy, the Green Plan, due to be released later this year.

18.77 The government's and the Department's specific environmental priorities for the next few years will be shaped by the Green Plan. The Plan is to set out a program of action in several areas. These include air and water quality, ozone depletion, global warming, environmental emergencies, toxic substances, waste management and the protection of Canada's ecological and heritage resources.

18.78 Details of the resources needed for the proposed Green Plan have not been disclosed. Until the Green Plan is completed and made public, Canada will continue to lack a comprehensive strategy for dealing with environmental issues.

19

Department of Indian Affairs and Northern Development

Northern Affairs Program

Department of Indian Affairs and Northern Development

Northern Affairs Program

Main Points

19.1 The Department of Indian Affairs and Northern Development (DIAND) is responsible for managing all Crown lands and natural resources in the Yukon and Northwest Territories. These lands comprise 40 percent of Canada's land mass and are home to about 79,800 Canadians. Although the DIAND Act clearly assigns the responsibility for managing the North to the Department, DIAND's transfer over the years of provincial-type programs to the territorial governments has made it difficult to hold the Department fully accountable for how it discharges this responsibility. To carry out those programs, DIAND transferred $825 million to the territorial governments in 1988/89 (paragraphs 19.6 to 19.14).

19.2 DIAND has not established a framework for evaluating the effectiveness of the land claims settlements. If the settlements listed in paragraph 19.29 are all ratified, the financial compensation and implementation costs will exceed $1.9 billion (19.32 and 19.30).

19.3 DIAND does not have any approved land use plans, despite having incurred expenditures of over $20 million for this purpose since 1981. The Department continues to spend over $5 million annually on this planning program (19.39 to 19.42).

19.4 Although DIAND does have some information on water quantity, it has comparatively little on water quality. DIAND does not carry out water licence inspection and enforcement vigorously. Several significant water contaminations persist (19.55 to 19.88).

19.5 Revenues from mineral activities are well below their potential. Rates for mining fees and rentals have not changed for over 60 years, and the royalty for gold placer mining is based on a gold value of $15 per ounce, which is far below the current worth of gold (19.105 to 19.107).

Table of Contents

Paragraph

Background 19.6

Audit Scope 19.18

Comprehensive Land Claims

- Background 19.20
- Audit Scope 19.24
- Observations and Recommendations 19.25
  - No implementation plan exists (19.25)
  - Roles and responsibilities were not clearly stated (19.26)
  - Annual reports do not contain cumulative costs and future commitments (19.27)
  - Compensation is not fully reported to Parliament (19.29)
  - Economic measures were not evaluated (19.32)
  - Financial compensation was made on schedule (19.34)

Land Management

- Background 19.35
- Audit Scope 19.38
- Observations and Recommendations 19.39
  - No land use plans have been approved, even after expenditures of $20 million over nine years (19.39)
  - No guidelines for determination of land use planning priorities have been developed (19.44)

Water Resource Management

- Background 19.46
- Audit Scope 19.51
- Observations and Recommendations 19.52
  - Water resource management objectives have not been documented (19.52)
  - DIAND needs more data to manage water resources (19.55)
  - Knowledge regarding airborne pollution is insufficient (19.60)
  - DIAND needs to know if Water Boards are meeting their statutory objectives (19.65)
  - Enforcement responsibilities are not adequately fulfilled (19.69)
  - DIAND needs to more thoroughly screen projects for potential damage to the environment (19.89)
  - DIAND has not adequately responded to recommendations arising from the 1981 Mackenzie River Basin Study (19.94)

Table of Contents (Cont'd)

Paragraph

Minerals Management

Background 19.97
Audit Scope 19.102
Observations and Recommendations 19.103
DIAND needs to evaluate its geoscientific information services (19.103)
Rates for fees, rentals, and royalties from mineral activities need updating (19.105)

Exhibits

19.1 Federal Transfers to the Territorial Government - 1988 89
19.2 Comprehensive Land Claims North of 60 Degrees
19.3 Northern Mineral Exploration and Mining - 1989
19.4 Production of Major Metals in the North - 1986-89

Department of Indian Affairs and Northern Development

Northern Affairs Program

Background

19.6 The Yukon and the Northwest Territories (NWT) encompass an area of some 3.9 million square kilometres, covering 40 percent of Canada. Spanning more than 4,200 kilometres from west to east and 3,500 kilometres from north to south, this immense region is of strategic importance to all Canadians.

19.7 The Yukon and NWT are home to about 79,800 Canadians. Two thirds of Yukon's 25,800 residents live in and around the territorial capital of Whitehorse, while less than one quarter of NWT's population of 54,000 live in Yellowknife. The remainder of the northerners, mostly of native origin, live in some 100 scattered smaller communities. The northern population grew from 25,000 in 1951 to 75,500 in 1986 -- an average annual growth rate of 4.6 percent, which is about twice the national average. In the Yukon approximately one fifth of the population is of aboriginal origin. In the NWT close to 60 percent are Indian, Inuit or Metis. Across the Territories at least six main native languages with many dialects are spoken. For many northerners, neither English nor French is the first language.

19.8 From a southern perspective, life in the North is often seen as harsh, remote, and lacking basic amenities. But for most northerners, the native population in particular, the view is quite different. For them it is a nurturing and secure place, a home with deep social, cultural, and spiritual roots in a rich, productive land. These perceptions are realities to be understood. But whatever the perspective, the North is expensive to govern.

19.9 The federal, territorial, and local governments are the largest employers in the North. They provide 30 to 40 percent of total employment. In the private sector, mining is the most important activity, followed by tourism.

19.10 The characteristic low temperatures, permafrost, soil conditions, and alternating long periods of sunlight and darkness of the northern latitudes, create an ecosystem that moves through seasonal cycles of prolonged deep freeze and shorter periods of explosive biological productivity. It alternates from austere, cold beauty to a lushness supporting an abundant population of migratory birds and mammals. For the most part, an agricultural industry is not economical or viable. However, underlying all conventional economic statistics is the vital subsistence economy of hunting, fishing, and trapping. These traditional land-based subsistence activities provide an economic, social, and cultural base for a rapidly growing rural population. The unemployment rate among native northerners, at 50 percent or more in some communities, is one of the highest in Canada. This situation is aggravated by the fact that over half of the native population is under 20.

19.11 The Indian Affairs and Northern Development Act of 1970 established for the Department a broad statutory base to serve as a quasi-provincial agent in the two Territories. The Minister of Indian Affairs and Northern Development is responsible to Parliament for the management and direction of provincial-type services and for managing all Crown lands situated in the Yukon and NWT. The Act also assigned to the Department the responsibility for co-ordinating the activities in the North of other federal departments, boards, and agencies.

19.12 In 1988 89, DIAND made unconditional grants of $825 million (see Exhibit 19.1) to assist the two territorial governments in the

The growth of northern cities -- Whitehorse and Yellowknife (see paragraph 19.7).

Whitehorse, Yukon

Yellowknife, NWT

provision of a full range of public services for their populations. These grants reflect the high cost of providing government services in northern Canada and the relatively small yield of tax revenues that are generated in these vast, sparsely populated parts of the country. Both territories still depend to a substantial degree on federal financial support.

19.13 Within the same period, significant changes have taken place in the nature and scope of funding arrangements between the federal and the territorial governments. In 1985, formula financing was implemented to ensure that this revenue dependency did not inhibit the capacity of the northern governments to set their own priorities. This approach permits the elected governments in the North to budget and spend as they see fit within a ceiling arrived at by a formula, without having to justify their expenditure allocations to the federal government. An annual increase is now also provided through an agreed formula rather than through annual negotiations. The formula involves the indexing of territorial government base-year expenditures by an escalator obtained from the growth rate of provincial and municipal expenditures. The amount reached is then offset by deducting revenues generated within the Territories.

Accountability for DIAND's management of the North is weak.

19.14 Over the years the Department has progressively transferred provincial-type responsibilities to the territorial governments in a process that has some precedent in the way in which Alberta and Saskatchewan were created from the NWT earlier in this century. In many ways, the NWT and Yukon can be seen as the last major building blocks in the creation of Canada. Today, the territorial governments have responsibility in the areas of education, local government, property and civil rights, direct taxation, wildlife resources management, and social and economic affairs. Nevertheless, they do not have a constitutional base for these powers. In addition, transferring these programs to the territorial governments has made it very difficult to hold DIAND fully accountable for managing the North, as called for by the DIAND Act.

19.15 The powers of the territorial governments are set out in two federal statutes: the Yukon Act 1953 and the Northwest Territories Act 1952. These are subject to federal legislation. Current arrangements require a high degree of federal territorial, as well as interdepartmental, co-operation. Evolution towards provincial status for the Territories will not be complete without the transfer of natural resources. Significant first steps are being taken in this regard through the development of the Northern Energy Accord. This has widespread implications for Canada, especially when viewed in light of recent land claims settlements.

19.16 With resource ownership still under federal jurisdiction, resource management and administration is for the most part a responsibility of DIAND, although that is quickly changing through devolution of responsibilities to the territorial governments. DIAND is expected to exercise the lead in areas such as environmental protection, land, forest (Yukon only), water and mineral resources, and oil and gas management. The Department is also accountable for the provision of services regarding regulation of land use, licensing and monitoring of water use, inland water surveys, mineral rights registration, exploration and geological assistance, and environmental management.

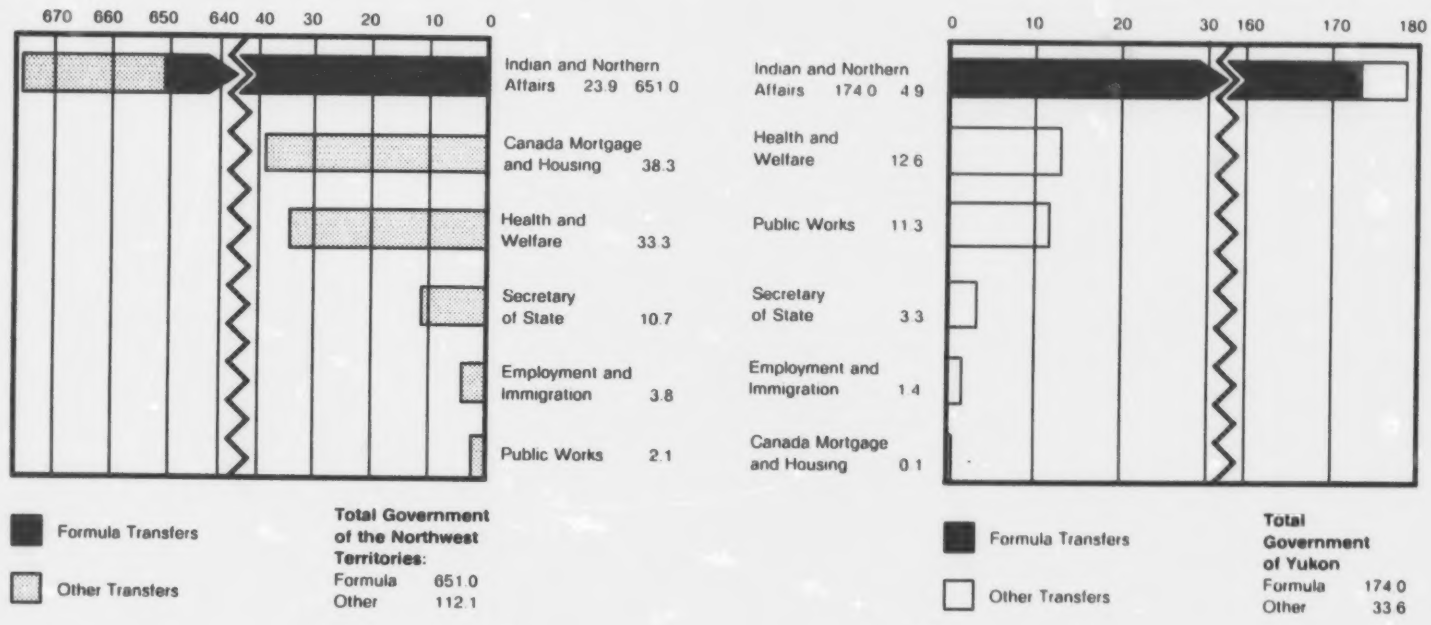
19.17 With this mandate, DIAND plays a vital role in the development and protection of the North. It administers key resources legislation, maintains conservation areas, defines options for development, develops and implements land use planning, leads environmental assessment activities, monitors pollution, and co-ordinates research in anticipation of resource developments.

Audit Scope

19.18 We examined the implementation and reporting of recent land claims settlements in the North. We also examined how the Department, through the Northern Affairs Program, carried out its statutory mandate and responsibilities for management of Crown lands in the North; and for the management, development, and conservation of the northern environment for the benefit of all Canadians and

Exhibit 19.1

FEDERAL TRANSFERS TO THE TERRITORIAL GOVERNMENTS



Transfers to Government of the Northwest Territories by Federal Agency 1988/89 ($ millions)

Transfers to Government of Yukon by Federal Agency 1988/89 ($ millions)

Source: Department of Indian Affairs and Northern Development Annual Northern Expenditure Plan 1988 89 northern residents in particular. Our examination covered the functions of land use planning, water resources management, and minerals development and management. Greater detail on the scope of our audit in each of these areas is provided in the relevant section of the chapter.

Our review focussed on how DIAND manages the North, which encompasses 40 percent of Canada's land mass and its resources.

19.19 DIAND has broad responsibilities for land management, environmental protection, and regulation of hydrocarbon development activities. In 1981, the Canada Oil and Gas Land Administration (COGLA) was set up to provide the federal government's principal regulatory point of contact with the northern oil and gas industry and is jointly administered by DIAND and the Department of Energy, Mines and Resources. The Energy Program of COGLA was audited and reported in our 1986 annual report. This area has been excluded from this audit.

Comprehensive Land Claims

Background

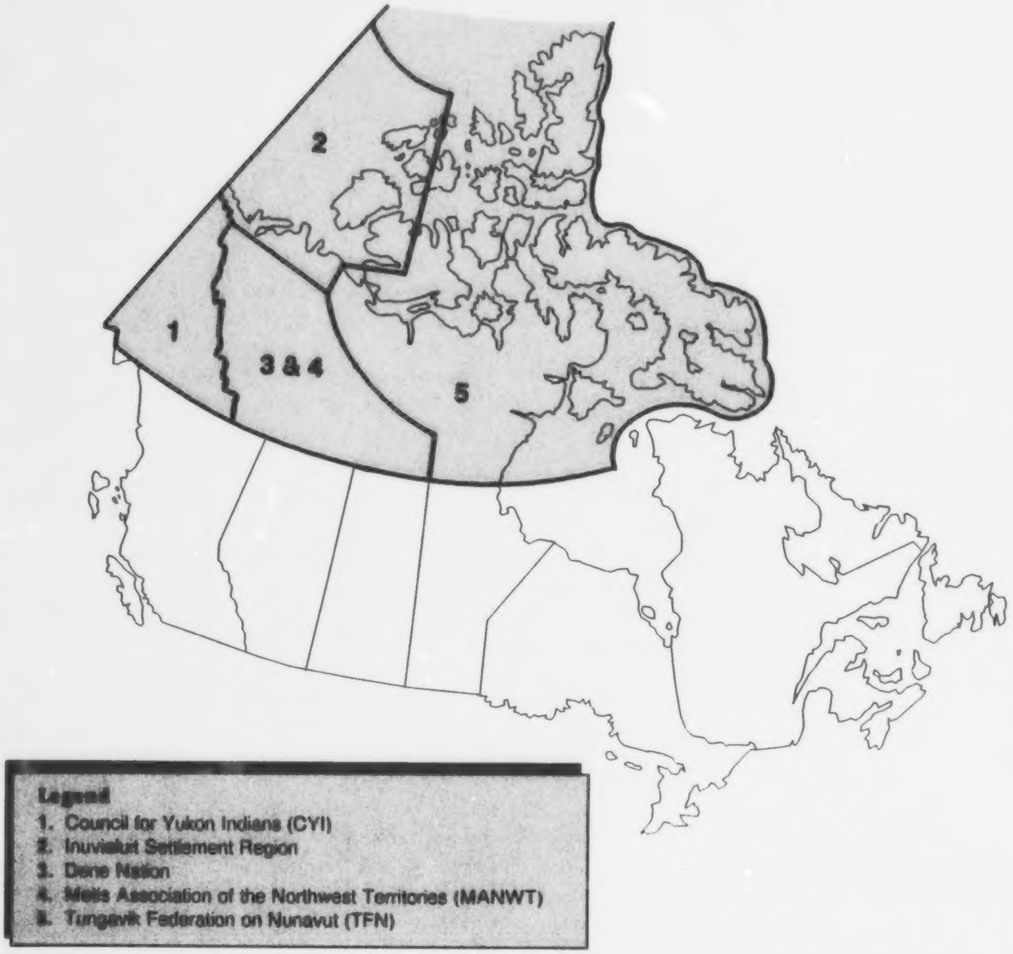
19.20 As stated by DIAND, the purpose of land claims settlements is to provide certainty and clarity of rights regarding ownership and use of land and resources in those areas of Canada where aboriginal title has not been dealt with by treaty or superseded by law. For aboriginal northerners, settlements are intended to provide the land and other resources necessary to maintain traditional activities and to participate in new economic ventures. They are also designed to provide native claimants with a voice in the management and development of the North's resources. For other northern residents, land claims settlements appear to be a major piece of unfinished business that needs to be resolved in order to decide the question of aboriginal title to federal lands and create a climate of greater certainty for business and industry in the territories.

19.21 There is an important link between land claims settlements, devolution of federal programs, and northern political development. Claim settlements have protected status in the constitution. The two territorial governments will have to accommodate those claim provisions that are guaranteeing the participation of claimant groups in the process of government. Claims are much more than cash and land transactions. The challenge facing governments in the North and in Ottawa is to develop institutions and structures of public administration that will accommodate the rights and interests of aboriginal people. At the same time, the elected governments in Whitehorse and Yellowknife must be accountable to all northern residents.

19.22 In a statement to the House of Commons on 8 August 1973 regarding the claims of Indians and Inuit, the Government of Canada recognized two broad classes of native claims -- comprehensive and specific. Comprehensive claims are based on traditional native use and occupancy of land. Specific claims relate to the fulfilment of treaties and to the administration of land and other Indian assets under the Indian Act. This audit focussed on comprehensive claims. Virtually all of the North's vast area is subject to land claims that have been submitted to the federal government by the Inuit, Inuvialuit, Indians, and Metis. Since the comprehensive claims process began in 1973, three have been settled: the James Bay and Northern Quebec Agreement in 1975, the Northeastern Quebec Agreement in 1978, the Inuvialuit Final Agreement in 1984. The Dene/Metis of the Northwest Territories initialled a Final Agreement in 1990 with the territorial and federal governments subject to selection of settlement land and ratification by all parties. The council for Yukon Indians initialled in 1990 an Umbrella Final Agreement with the federal and the territorial governments.

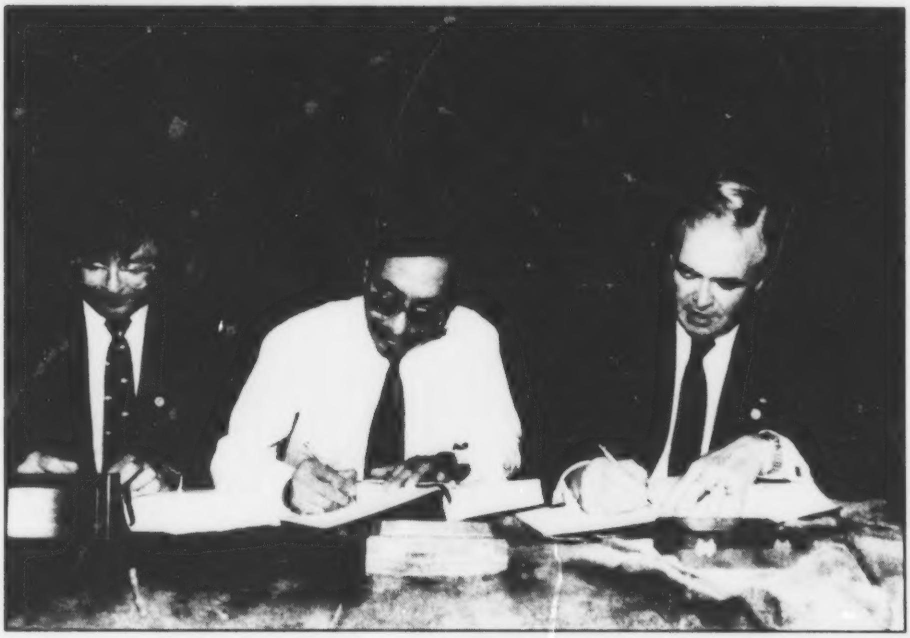
Exhibit 19.2

COMPREHENSIVE LAND CLAIMS NORTH OF 60 DEGREES


2
1
3 & 4
5
Legend
1. Council for Yukon Indians (CYI)
2. Inuvialuit Settlement Region
3. Dene Nation
4. Metis Association of the Northwest Territories (MANWT)
5. Tungavik Federation on Nunavut (TFN)

This will provide a basis for land selection and negotiation of final agreements with each of the Yukon Indian bands. The largest northern land claims agreement, the Tungavik Federation of Nunavut reached an agreement-in-principle in 1990 (see Exhibit 19.2).

19.23 In 1986, we reported on the process for implementing the James Bay and Northern Quebec Agreement. We commented on the absence of implementation plans in the final claims agreements. We felt such an omission would lead to the failure to carry out parts of the agreement, as departmental obligations were not fully spelled out. We also commented on the failure of the Department to comply with legislation regarding the tabling of annual reports on implementation to Parliament. In response to our report, the DIAND Evaluation Directorate conducted a review of the government's implementation of the Inuvialuit Final Agreement (IFA) in 1987. Based on the findings of this review, which were similar to those of our 1986 report, the Evaluation



Signing of the Tungavik Federation of Nunavut agreement-in-principle on 30 April 1990 -- the largest comprehensive claim to aboriginal land title in Canada (see paragraph 19.22).

Directorate prepared suggested guidelines containing the procedures for negotiating implementation plans. In December 1989, the Department published these guidelines, which set out the requirements to establish detailed plans for final agreement and ratification by all parties.

Audit Scope

19.24 We examined the systems and procedures in place for the implementation of recent land claims settlements in general and of the IFA, which was signed in June 1984. We also examined the action taken by the Department in response to our recommendations from our 1986 report on the implementation of native land claims.

Observations and Recommendations

No implementation plan exists

19.25 There was no formal planning document produced for the implementation of the IFA. Instead, planning was carried out on an ad hoc basis. The absence of such a plan delayed Treasury Board approval of implementation funds for almost two years after the passage of IFA legislation. The Department realized that a well-designed plan would have eliminated many of the problems encountered during implementation and would have provided sufficient detail to produce accurate expenditure estimates.

Roles and responsibilities were not clearly stated

19.26 The complexity with respect to IFA implementation is largely due to the number of participants: various federal departments, the governments of the Yukon and NWT, and the Inuvialuit. The roles and responsibilities of the federal negotiators and other participants were not clearly stated and understood by all parties, and terms of reference were not specified. This lack of functional clarity has impeded assurance of accountability.

Annual reports do not contain cumulative costs and future commitments

19.27 In response to our 1986 audit report and to a request of the Public Accounts Committee, the Department publishes annually a report on the implementation of the IFA, also referred to as the Western Arctic (Inuvialuit) claim. We found that it provides useful information on the implementation cost for the year reported, but does not include either cumulative costs or future commitments by the federal departments concerned. This information was not reported in Part III of the Estimates or in DIAND's annual report. Also not included was a schedule of financial compensation payments to the Inuvialuit, which would provide a more complete disclosure on the IFA to Canadians.

Parliament needs complete information on costs and future commitments for the implementation of land claims settlements.

19.28 Annual reports on implementation of land claims settlements should include the cumulative costs of implementation to date and a schedule of financial compensation payments.

Department's response: *The Department agrees with the recommendation.*

Compensation is not fully reported to Parliament

19.29 Substantial compensation payments have been promised to aboriginal beneficiaries of land claims settlements. The following is a list of agreed financial compensation payments.

James Bay and Northern Quebec Agreement (1975) and Northeastern Quebec Agreement (1978)	$ 234	million
Inuvialuit Final Agreement (1984)	$ 152	million
Council for Yukon Indians Agreement (1990)	$ 248	million
Dene Nation and Metis Association of NWT (1990)	$ 504	million
Tungavik Federation of Nunavut (agreement-in-principle) (1990)	$ 612	million
Total	$1,750	million

19.30 The federal share of the financial compensation for the James Bay and Northern Quebec Agreement has been fully paid. The amount outstanding for the Inuvialuit Final Agreement is $127 million. In addition to this, negotiations or ratification of proposed agreements for Council for Yukon Indians, the Dene Nation and Metis Association of the Northwest Territories and Tungavik Federation of Nunavut are under way. Financial compensation of $1.3 billion would be paid, should the legislation for each settlement be enacted. These amounts would represent a legal obligation of the Government of Canada, which would be due and payable over a number of years. In addition to the compensation payments, the settlement of the three northern claims under negotiation would lead to implementation costs, estimated by the Department to be $600 million, over the next ten years. Parliament should be informed of these amounts.

19.31 Compensation resulting from land claims settlements should be fully reported to Parliament.

Department's response: *DIAND will provide information as required by the Office of the Comptroller General for reporting to Parliament.*

Economic measures were not evaluated

19.32 The Inuvialuit Final Agreement includes certain socio-economic measures designed to expedite full Inuvialuit participation in the economy of northern Canada through the development of adequate levels of economic self-reliance. DIAND needs to design an evaluation framework to assess whether the objectives of the socio-economic measures are being achieved. The results from such an evaluation would be a good source of input for future land claims negotiations.

19.33 A framework for evaluating achievements of the socio-economic measures included in land claims settlements should be established. The results from the evaluation should be considered in future land claims negotiations.

***Department's response**: Given that the socio-economic benefits of a claims settlement may take 10 to 15 years to be realized, there will be limited input into current negotiations.*

Financial compensation was made on schedule

19.34 The Inuvialuit will receive $152 million in a series of payments that began in 1984 and will end in 1997. We found that all payments to the Inuvialuit have been made on schedule.

Land Management

Background

19.35 Canada's North comprises vast lands that are both a home to northerners and a frontier region rich in resources. Accordingly, the way in which the land, with its wealth of minerals, timber, water, and wildlife is managed has a direct impact on the future development and protection of the North.

19.36 A major land management mechanism currently under development for the North is DIAND's Northern Land Use Planning Program. Its purpose is to identify the preferred and most effective uses of northern lands and resources through the development of regional land use plans. Land Use Planning is under the joint responsibility of the federal government, represented by DIAND, and the territorial governments. The program provides a consultative process with aboriginal groups and communities, which are planning partners in this process to evaluate alternative land uses and resolve conflicts of different interest groups. Land use plans are prepared by the planning commissions through a public process.

19.37 In 1981, the Department announced a federal land use planning policy, which committed it to establishing a system to improve the management of northern land resources. Formal land use planning agreements were finalized between the Department and the NWT government in 1984 and the Yukon government in 1987.

Audit Scope

19.38 Our examination assessed the development and application of land use plans in the context of the Department's mandate.

Observations and Recommendations

No land use plans have been approved, even after expenditures of $20 million over nine years

19.39 DIAND recognizes the importance of land use planning for effective land management. The government established a federal land use planning policy, and Treasury Board approved and allotted resources to the Department for carrying out a Northern Land Use Planning Program. Since the 1981 announcement, land use planning costs are estimated by DIAND to have exceeded $20 million. As of spring 1990, there were still no approved land use plans for any part of the North, notwithstanding the considerable time, effort, and resources that have been spent over the years. The Department has budgeted $5.5 million in 1990/91 for land use planning, and similar amounts are targeted for future years.

19.40 The document that is closest to an approved plan is the proposal for Lancaster Sound, in the NWT. This proposal has been under development for over four years, with a history reaching back to 1981. Since the current land use planning agreement requires final approval of the Minister and of Cabinet, additional time will be needed before implementation can commence.

19.41 In the Yukon, the most advanced planning work relates to the Greater Kluane Region. The target date for completion of a first draft plan is scheduled for late 1990.

19.42 There are both actual and potential adverse consequences of not having land use plans. The Department acknowledges that piecemeal land use control, as practised through the issuance of permits and licences, does not address the larger questions. These relate to such areas as minimization of risks to the environment, avoidance of conflict between water users, and development opportunities associated with larger regions and their complex characteristics. Other adverse impacts include possible threats to aboriginal cultures, disincentives to investors, environmental damage, and perhaps economic stagnation. While land use plans would not necessarily provide all the answers, a sound plan would provide a better balance of economic development and environmental protection and a better consideration of social/cultural issues.

19.43 DIAND should take immediate steps with its planning partners to finalize its land use plans, so that they can be approved and implemented to enable effective management of northern lands.

Department's response: *The Department will endeavour to focus the plan development process toward finalizing land use plans.*

No guidelines for determination of land use planning priorities have been developed

19.44 There were no documented criteria or guidelines to help planners identify potential land uses, priorities, opportunities, and potential threats to the ecosystem for each region and sub-region. Such guidelines are needed to determine the appropriate and feasible land uses, given the often conflicting objectives of economic development, environmental protection, and aboriginal and non-aboriginal interests.

19.45 DIAND should establish criteria and guidelines for determining land use planning priorities that are consistent with federal government policies for the North.

Department's response: *The Department will review the feasibility of producing land use planning priority guidelines with a view to determining applicability to the northern setting.*

Water Resource Management

Background

19.46 According to a federal government study, roughly 30 percent of Canada's freshwater is located in the North. The Mackenzie and Yukon River systems are among the largest in the world, encompassing portions of British Columbia, Alberta, Saskatchewan, the Yukon, and the NWT. The eastern part of NWT also contains thousands of lakes and rivers. Water is used for many purposes in the North, including drinking, sustaining wildlife, recreational activities, transportation, mining, and hydro-electric development.

19.47 DIAND is responsible for the management of water in the Yukon and the NWT. Its mandate derives primarily from the DIAND Act, which deals with the Department's general role in the management of Canada's northern resources, and from the Northern Inland Waters Act (NIWA), which provides the Minister with specific authority and responsibility for inland water.

19.48 DIAND shares some of its responsibilities for water management with other federal government departments. These include the Department of Fisheries and Oceans (DFO), respecting water standards for fish habitats, and the Department of the Environment (DOE), respecting its participation in water surveys. In addition, the governments of the Yukon and Northwest Territories have important responsibilities in relation to water uses.

19.49 Since some major river systems in Canada originate in provinces south of the Territories and empty in the North, water flows or diversions and discharges of pollutants originating outside DIAND's legislative jurisdiction affect waters within its area of responsibility. In this regard, the development and application of appropriate transboundary water agreements and international agreements on the long-range transport of airborne pollutants play an important role in water management.

19.50 Given the multiplicity of economic, environmental, social, and cultural roles that water plays in the North, and its vulnerability to competing demands, successful water management is a formidable challenge, particularly for DIAND, which bears the main responsibility under current legislation.

Audit Scope

19.51 Our examination assessed the adequacy of DIAND's practices, procedures, and controls as they relate to its mandate to manage inland water resources, including DIAND's acquisition, maintenance, and application of water data, and the issuance and monitoring of water licences.

Observations and Recommendations

Water resource management objectives have not been documented

19.52 Sound water management practices should include approved objectives that address the use of significant water systems or parts thereof in terms of conservation and development priorities. Moreover, documented water management policy should be in place to clearly state these objectives and to specify responsibilities and accountability. The policy should identify the criteria for determining acceptable uses of water by major area in the context of subsistence, economic development, and environmental protection; the criteria for minimum monitoring needs should also be specified along with the appropriate strategies for program implementation.

19.53 We found that the Department did not have documented objectives and policy in terms of conservation and development priorities for water management.

19.54 DIAND should state clearly its objectives for inland water resource management. It should specify what it is accountable for and how it intends to discharge its responsibilities. It should also establish criteria for determining acceptable water usage and for monitoring needs.

Department's response: *The Department agrees with the recommendation. Water management objectives will be put forward in changes proposed to the Northern Inland Waters Act.*

DIAND needs more data to manage water resources

19.55 Knowing the quantity, quality, and other characteristics of northern waters is essential if water resources are to be adequately managed. DIAND continues to participate in water surveys and other data-gathering projects to increase its knowledge of inland water. It also obtains information by monitoring licensed water activities and by conducting specific studies.

Knowledge of water quality and airborne pollution is essential for water resource management.

19.56 DIAND informed us that in April 1988, 74 hydrometric stations in the Yukon and about 140 in the NWT were actively being used to collect data on water quantity. Over the years, DOE and DIAND had conducted several studies to determine their station needs. Both departments expressed concern that these 214 stations were not able to provide all the essential data needed for water management.

19.57 For DIAND to effectively manage water resources, it also needs to acquire, maintain, and apply an appropriate body of knowledge concerning water quality for all significant waters under its jurisdiction. A joint DIAND-DOE report states that current informal arrangements to monitor water quality are inadequate.

19.58 According to a scientific evaluation meeting on contaminants in the North held in early 1989, a wide variety of contaminants were present in the snow, ice, air, and water. Samples contained PCBs and DDT compounds as well as cadmium, mercury, and lead. The findings and conclusions of this meeting represented current knowledge of northern contamination at the time of our review. We were informed that PCBs found in the native diets of fish in one residential area in NWT had exceeded the tolerable level. One effective means of monitoring and responding to this kind of contamination is by gathering and assessing water quality information and applying it in water management.

19.59 DIAND should establish an appropriate knowledge base concerning the quality and quantity of northern waters and should apply this knowledge in its management of water resources of the North.

Department's response: *The Department agrees with the recommendation.*

Knowledge regarding airborne pollution is insufficient

19.60 Because water quality is affected by airborne pollutants, the audit considered DIAND's efforts to keep abreast of local, regional, and long-range transport of contaminants that enter northern aquatic ecosystems. DIAND indicated its concern that Canadian northern waters were probably being contaminated by airborne pollutants.

19.61 This is a complex problem. The sources of air pollution that affect our North may not always originate in Canada or even North America. Some of the contaminants, such as mercury and hydrocarbons, have natural sources, and some may be due to industrial activities. In addition, not only DIAND but other federal departments have responsibilities in this area. For example, DOE's Atmospheric Environment Service responsibilities include studying atmospheric changes, which may be partly caused by pollution. However, DIAND has legislated responsibility for co-ordinating all government activities in the North. In this regard it co-ordinates an interdepartmental committee on contaminants in the northern ecosystem.

19.62 At the time of our audit, DIAND had begun to address some of the airborne contaminant concerns that affect water resources. For example, it plans to participate in a draft international agreement for joint co-operation in the Arctic. The related proposals cover many areas of environmental risk: monitoring emissions and biological effects of pollution from oil and gas operations in the North; conducting research and method development for the conservation and protection of northern inland waters; conducting studies on pollution pathways; developing methods to monitor and regulate water quality; and studying long-range transportation of contaminants by air and water currents.

19.63 DIAND has also prepared a discussion guide for the development of an arctic environmental strategy. However, during our audit, DIAND did not have a comprehensive plan to deal with known or suspected water contamination caused by air pollution.

19.64 DIAND should develop and co-ordinate implementation of an appropriate plan to ensure that airborne pollutants and their impacts on water and water users are identified. Furthermore, DIAND should develop and maintain an adequate information base in support of the plan.

Department's response: *The Department's five-year research strategy to examine contaminants in the arctic ecosystem will include airborne pollutants.*

DIAND needs to know if Water Boards are meeting their statutory objectives

19.65 Water licensing is a key mechanism to properly anticipate and prevent ecological crises and to avoid costly, and possibly irreversible, environmental damage.

19.66 Under NIWA, a water licence is generally needed when the intended consumption will exceed 50,000 gallons per day or when a discharge of waste will be made into the water. Water Board members are appointed by the Minister of DIAND to assess water licence applications and to make recommendations to the Minister on whether or not the licences should be granted. Board members are not necessarily from the federal government. DIAND officials may provide technical advice and offer opinions to the Boards on selected applications. The objective of the Boards is to provide for the conservation, development, and utilization of the water resources of the Yukon and the NWT in a manner that will provide the optimum benefit for all Canadians and for northern residents in particular. NIWA gives DIAND the authority to perform inspections of any area, place, or premises (except private dwellings) for purposes of enforcing the Act.

19.67 The objectives of the Boards contain competing elements. Accordingly, we expected to find written guidelines on how licensing decisions should balance matters like conservation and development. Guidelines could include such factors as: population density, proximity to wildlife, past history and current use of the area, risk of damage and recoverability, economic benefits, and the compatibility of the proposed water use to the selected criteria. DIAND and the Water Boards do not have such guidelines. Without them it is difficult for the Department to know whether or not Board recommendations are reasonable.

19.68 The Water Boards and DIAND should establish written guidelines to help all the parties concerned arrive at an optimum balance between the conflicting considerations of conservation, development, and utilization of water resources when making decisions to issue water licences.

Department's response: *The Department agrees with the recommendation.*

Enforcement responsibilities are not adequately fulfilled

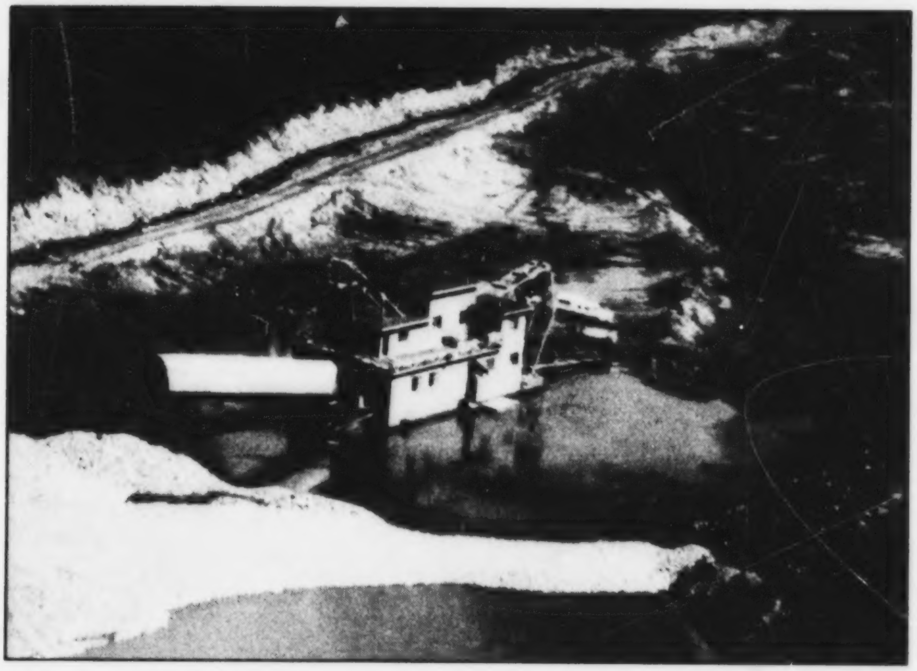
19.69 The enforcement of water licences is performed by DIAND inspectors, not the Boards. The departmental inspectors determine the extent of compliance by the water licensee with the terms and conditions of the licence. Licences specify conditions for permissable discharges and generally require a water quality surveillance and sampling schedule for the licensee. DIAND evaluates compliance by reviewing surveillance reports submitted by licensees and by verifying their water sample analyses, as well as by analysing its own water samples.

Rigorous enforcement of water licences is essential.

19.70 We conducted a general overview of water licence inspection and enforcement procedures in the Yukon and in the NWT to confirm that DIAND had a monitoring function in place. This included an examination of 36 randomly selected water licence cases. We did not perform a detailed audit of all possible compliance matters.

19.71 It should be noted that because of the pervasive effect of water-related contamination, a single toxic discharge can have devastating effects through migration of contaminants into other areas. Consequently, we expected to find a tight application of inspection procedures and forceful remedial action where licence violations were found.

19.72 DIAND's inspection manual for the NWT suggests that inspections of licensees should be performed four to five times annually, depending on seasonal and operational circumstances at the site. In our examination of 10 randomly selected from the 28 industrial licences in the NWT inventory, we found that inspections occurred at an average rate of about 25 percent of the suggested frequency. Lack of adequate resources was the main reason cited for the reduced level of inspection.



Placer mining is a major water user in Yukon (see paragraph 19.73).

19.73 In the Yukon, where placer mining is a major water user, the Yukon Fisheries Protection Authorization requires an inspection of a licensee at least once per mining season and more often if compliance problems are noted. We reviewed five percent of placer mining water licences selected at random and found that the frequency of inspections in the cases reviewed was generally consistent with the requirements.

19.74 Our review in the Yukon and NWT also revealed that when there is non-compliance with water licences or NIWA, DIAND has difficulty in enforcing the applicable conditions. The cases described below illustrate the nature of the problem.

Case 1

19.75 In one Yukon case, a mining company abandoned its mine site in 1978. According to DIAND, the company failed to restore the site as required by its water licence. It also never submitted a rehabilitation and stabilization plan acceptable to DIAND for mine abandonment, which it was required to submit by 1981.

19.76 DIAND periodically monitors the mining area so that it can assess general site conditions. Inspection reports in 1986, 1987, and 1988 revealed erosion, waste deposits, and other matters of concern. A DIAND inspection in 1989 showed that several hazards remain, including open wells, open sewage treatment tanks, and vacated buildings. In addition, there are partially blocked culverts, which are affecting water levels of a lake.

19.77 In June 1990, DIAND confirmed that there had been no action to stabilize waste rock or tailings piles that encroach on streams and create blockages. As well, natural and other discharges containing high levels of asbestos fibre continue to occur. Debris and pits create further hazards.

19.78 In connection with the abandonment of the mine, and at the request of DIAND, the licensee posted five warning signs, which state that "... persons entering this area do so at their own risk and should exercise extreme caution."

19.79 We further noted that the licensee had posted a $400,000 surety bond in 1977 to be

WARNING
This area is located below a dammed river. Flash floods and rapid changes in water level can occur without warning. Persons entering the area do so at their own risk and should exercise extreme caution.
AVERTISSEMENT
Cette région est située en dessous d'une rivière avec barrages. Des inondations soudaines et des changements rapides du niveau d'eau pourraient se déclencher sans avertissement. Toute personne entrant dans cette région, le fait a ses propres risques et devrait être extrêmement prudent.

Five of these signs were posted by the water licensee in response to DIAND's request in connection with the mine and its abandonment (see paragraph 19.78).

used in the event of its default under the licence. DIAND demanded payment of the bond in 1986 for violation of the water licence. The indemnity company refused to pay on the grounds that DIAND had not given it proper notice and details of default. In June 1990, DIAND estimated that the costs for waste removal and rock stabilization were $20 million and observed that it would not be practicable to rehabilitate the site.

19.80 Upon conclusion of our audit, DIAND confirmed that the abandonment issue was still in dispute. We were advised by the company that it does not entirely agree with DIAND's position.

Case 2

19.81 Enforcement inadequacies are not limited to industrial water licences. DIAND files indicated that a major municipality in the Yukon was in non-compliance with the terms of its water licence. The municipality had caused excessive toxicity of certain lagoons discharging into the Yukon River on seven occasions during the year ended 31 March 1990. It also failed to provide any of the required water quality monitoring reports. DIAND informed us in June 1990 that it was considering taking legal action. We further noted that prior to April 1986, the date its licence took effect, the municipality's water usage was not regulated.

Case 3

19.82 DIAND is aware that one NWT licensee was in non-compliance with its licence by discharging waste into the water in excess of permissable effluent concentrations for about 100 days (including arsenic for 50 days) during the period of May to August 1989.

19.83 According to DIAND, the company acknowledged that the non-compliance resulted from operational difficulties. DIAND further noted that it was premature to assess the company's reported attempts to remedy the problems.

19.84 In September 1989, the NWT Water Board passed a resolution calling for consistent and effective enforcement of all licence conditions and specifically identified this company, among others, as one that DIAND should closely scrutinize with a view to possible prosecution.

19.85 In an October 1989 letter to the company, DIAND stated that it considered the company's non-compliance to be significant. In February 1990, the matter was discussed at DIAND's Enforcement Review Committee, who referred the case to the Department of Justice for legal advice. DIAND informed us in June 1990 that Justice had recommended laying two charges and that the case was being referred back to the Enforcement Review Committee.

19.86 In spite of the seriousness of the licence violations, the resolution of the Board, and the operating problems of the licensee, the water licence was renewed in May 1990. We were advised by the company that among other things, it does not agree with DIAND in terms of the interpretation, severity and frequency of the apparent non-compliance.

19.87 The above observations do not mean that all licensed water uses are flawed or risky. However, we are concerned that DIAND's credibility and the effectiveness of water licensing may have been eroded by non-enforcement of licence terms and conditions.

19.88 DIAND should review the adequacy of water licence inspections and either ensure that existing guidelines are followed or make appropriate amendments to its inspection manual. Also, DIAND should enforce licence terms and conditions more vigorously.

***Department's response**: The Department agrees with the recommendation.*

DIAND needs to more thoroughly screen projects for potential damage to the environment

19.89 DIAND is subject to the federal government's Environmental Assessment Review Process (EARP). Accordingly, DIAND established a Regional Environmental Review Committee (RERC) in the North to screen projects (including those affecting water) for implementation or for possible referral to a full panel and more intensive review under EARP.

19.90 Screenings for environmental impact on water are performed by DIAND and Water Board officials upon reviewing the water licence applications. DIAND officials screen applications and are responsible for forwarding to the RERC all applications that they feel require further assessment for potential environmental damage. The RERC is responsible for recommending the circumstances under which the complete EARP process will be followed, including public hearings.

19.91 Our review of screening procedures disclosed that:

(a) Water resource officers have no written criteria for deciding which applications should be sent to RERC, and no reasons are documented for those applications that are not sent to RERC.

(b) DIAND does not have written criteria for deciding which projects should proceed to the EARP panel and, in the Yukon, RERC does not have documented terms of reference, objectives, or procedures.

(c) Typically, less than five percent of the applications reach RERC.

(d) In the last ten years, there have been no EARP panels established for Yukon projects having significant water impacts.

19.92 The absence of approved written criteria reduces the likelihood that NIWA's objectives concerning water conservation and development are being consistently and properly interpreted and applied to each water application. Consequently, DIAND cannot know if it is forwarding all the "risk" water applications that require a higher level of review.

19.93 DIAND, in consultation with DOE, should develop written criteria for use by screeners of water licence applications and for the RERC. These criteria should be consistent with NIWA, properly integrated with EARP requirements, and used to form the basis for documented decisions on the extent of environmental considerations given to any project coming under DIAND's mandate.

***Department's response**: The Department agrees with the recommendation.*

DIAND has not adequately responded to recommendations arising from the 1981 Mackenzie River Basin Study

19.94 Of the nine recommendations made in 1981, four are reported as implemented. We reviewed the status of the other five recommendations. Of these five, one was deemed to be only partially applicable, another was currently in the process of implementation, two were not started because of an apparent lack of funding, and the other one was being implemented on a modest scale.

19.95 The audit is particularly concerned with the lack of implementation of the first recommendation, which deals with water flows and quality, because it is fundamental to the protection of the NWT as a downstream interest. It relates to the need for transboundary water agreements involving seven jurisdictions. The committee established to implement the study acknowledges that progress has been slow. Its 1988/89 annual report does not indicate any major disagreements with the recommendations. We believe that DIAND, with the co-operation of the other participants, should hasten the completion of these crucial agreements, particularly in view of the heavy industrial use of major water systems that originate south of the 60th parallel and flow to the North.

19.96 DIAND, in co-operation with DOE, should take the necessary action to expedite the implementation of all the applicable recommendations of the 1981 Mackenzie River Basin Study.

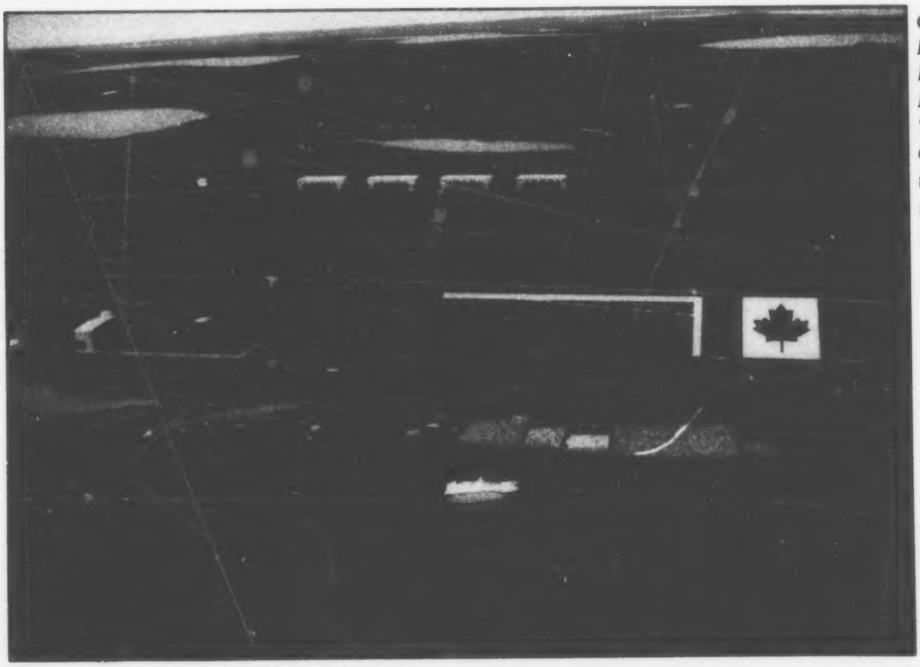
Department's response: *The Department has started and will continue to work with the Department of Environment, the provinces of British Columbia, Alberta and Saskatchewan, and with the governments of the Yukon and the NWT to implement the study recommendations.*

Minerals Management

Background

19.97 Mining has been the dominant private sector industry in the North and has been an essential component in promoting northern economic development. The mining sector has contributed over 30 percent on average to the territorial gross domestic product in the past few years. In 1988, the mining sector in the North produced approximately $1.3 billion worth of minerals and employed some eight percent of the northern labour force. Eight hardrock mines operate year round, and two operate on a seasonal basis. In the Yukon, there are some 200 seasonal placer gold operations. (See Exhibit 19.3.)

19.98 In respect to mineral development, DIAND has a dual role -- as a federal and as a quasi-provincial government. Accordingly,

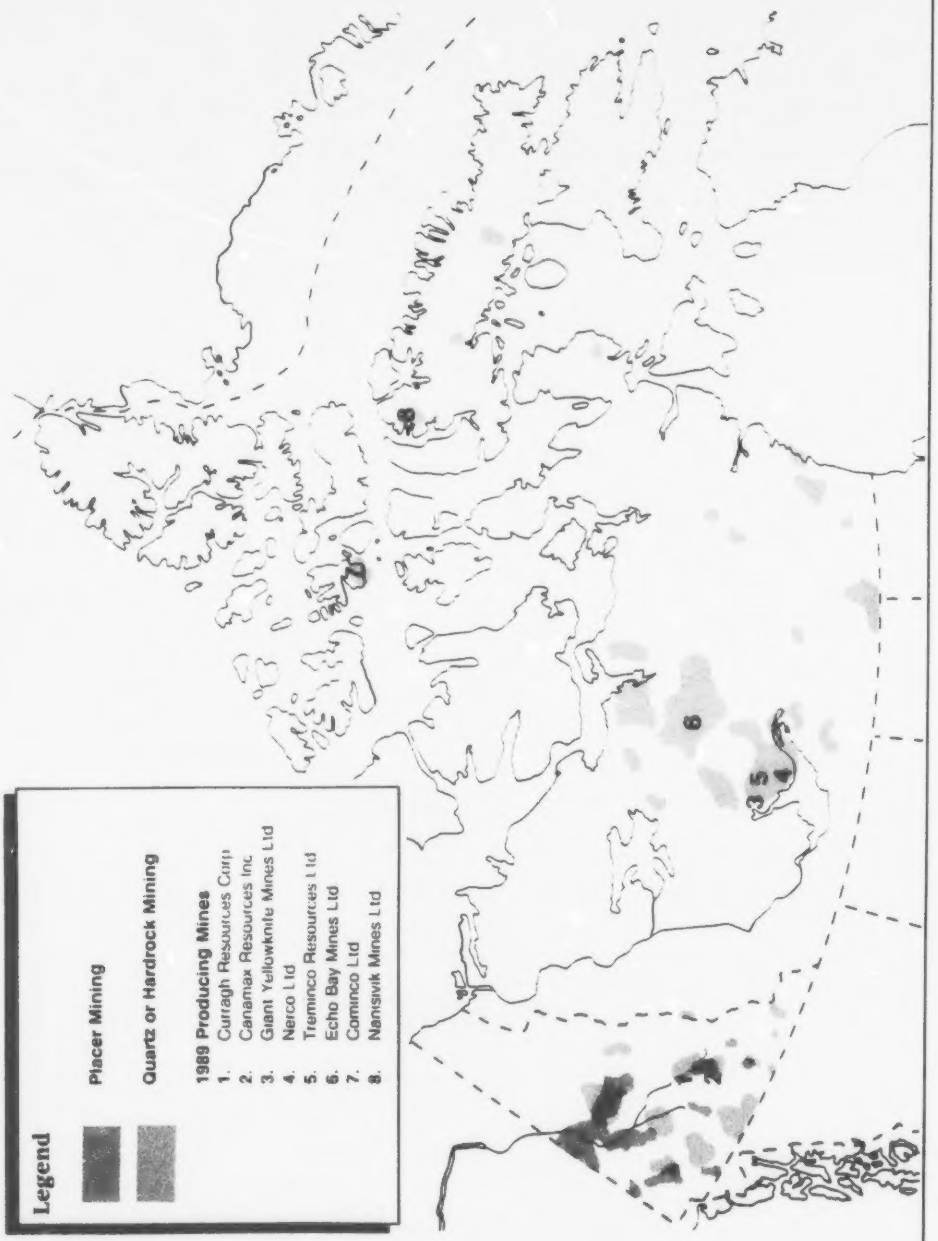


Cominco Ltd.'s Polaris Mine on Little Cornwallis Island, Northwest Territories -- Canada's most northern hardrock mine (see exhibit 19.3).

Exhibit 19.3

NORTHERN MINERAL EXPLORATION AND MINING - 1989

Areas of Exploration Activity


Legend
Placer Mining
Quartz or Hardrock Mining
1989 Producing Mines
1. Curragh Resources Corp
2. Canamax Resources Inc
3. Giant Yellowknife Mines Ltd
4. Nerco Ltd
5. Treminco Resources Ltd
6. Echo Bay Mines Ltd
7. Cominco Ltd
8. Nanisivik Mines Ltd
8
3
5
4
6

DIAND is responsible for developing legislation and policy, regulating the mining industry, collecting royalties, and issuing leases and licences.

19.99 Mining is highly sensitive to world markets and government actions. Like oil and gas, it is subject to a high level of risk. Northern exploration is costly and is carried out with no assurance of finding viable mineral deposits. Northern infrastructure costs are high. Unforeseeable operating problems are not unusual and are often expensive. Capital costs are high. Fluctuating commodity prices may make development or continued operation of a mine unattractive to investors. Many of these factors are beyond the ability of governments or corporations to change.

19.100 There are other factors more closely tied to government initiatives that affect the operating environment of the industry and that are important for sustained mineral exploration and development in the North. In 1986, the federal government put forward a Northern Mineral Policy to create a climate of greater certainty for northern mining, to increase the industry's competitiveness, and to encourage closer co-operation between the industry, the government, and the public.

19.101 In the North, creating business certainty is a challenge, especially for mining. Unfortunately, the regulatory and approval processes are slow, often confusing, and sometimes unpredictable, because they involve many government agencies and pieces of legislation administered from two territorial capitals and Ottawa. Furthermore, land claims negotiations and subsequent implementation and environmental initiatives have an effect over time on mineral exploration and development. Along with worldwide market trends, these uncertainties affect the climate for investing in the mining sector in the North. There has not been any significant growth in the past few years. (See Exhibit 19.4.)

Audit Scope

19.102 Our examination focussed on how DIAND gathers and disseminates geoscientific information to encourage the development of mineral resources in the North. We also examined the systems and practices by which DIAND collects fees, rentals, and royalties from mineral activities.

Observations and Recommendations

DIAND needs to evaluate its geoscientific information services

19.103 DIAND recognizes that mineral exploration in the North can be encouraged by providing geological maps, mineral exploration reports, and geological data on known resources. For the Department to determine the adequacy of these services, it needs to have information and conduct analyses on the nature and extent of geoscientific information needed, the required frequency of revisions, alternative methods of gathering data, and the potential for cost-sharing arrangements with users. We found that DIAND has not conducted analyses to support its rationale for the extent and appropriateness of geoscientific efforts. We further noted that DIAND has not conducted any program evaluations related to mineral resources management in the North.

19.104 DIAND should analyse the adequacy of its dissemination of geoscientific information and conduct periodic program evaluations of its mineral resources management activities.

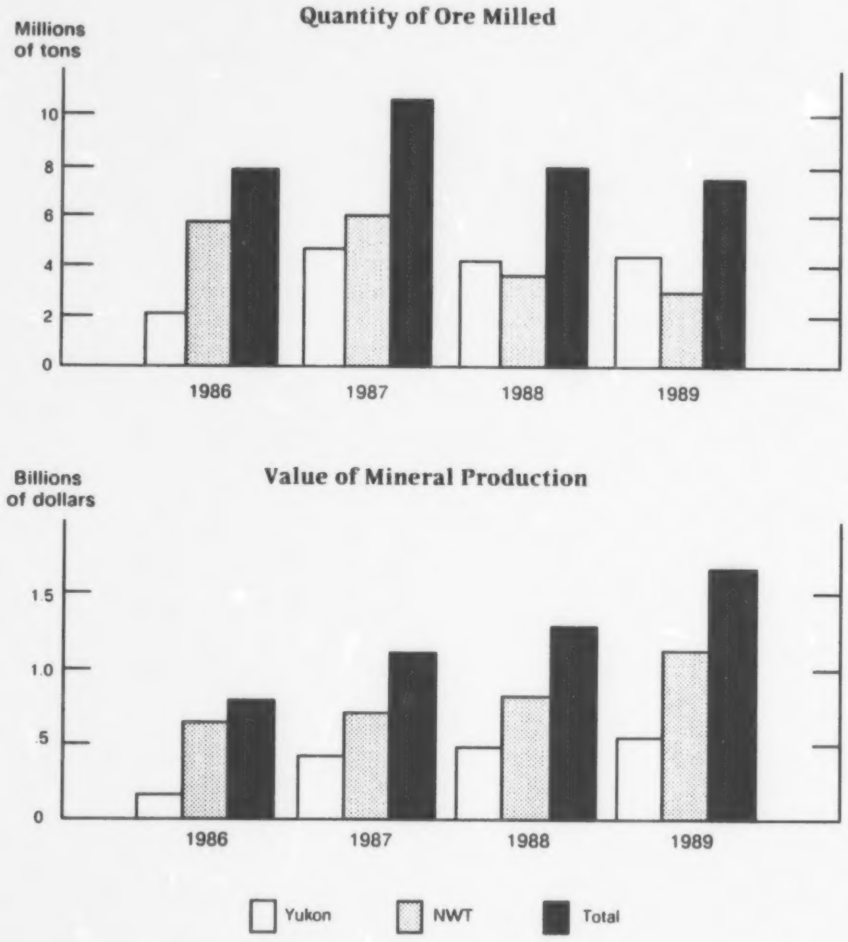
Department's response: *The Department agrees with the recommendation.*

Rates for fees, rentals, and royalties from mineral activities need updating

19.105 In the North, DIAND, with its quasi-provincial mandate, collects three types of direct revenues from mineral activities: fees,

Exhibit 19.4

PRODUCTION OF MAJOR METALS IN THE NORTH



Source: Departmental records

rentals, and royalties. Fees and rentals are paid by mining companies for the registration and retention of claims and leases and the granting of mine licences by the Department. In 1988/89, these amounted to $1.6 million. The Treasury Board Guide on Financial Administration states that when individuals, or groups of individuals, through their requests or actions, require services to be rendered for their personal benefit, the related fees and rentals should take into account the costs of providing the services. The rates for mining fees and rentals have not changed for over 60 years in the Yukon, even though the costs of providing these services have increased significantly over that period.

Revenues from mineral activities are well below their potential.

Comparison of Rental Fees for Lease of Claim (in dollars per hectare per year)

Stage	Yukon	NWT	Provincial Average
Pre-production	.28	2.47	3.07 (*)
Production	.46	2.47	8.32 (**)

(*) excluding Quebec, as data not amenable to averaging
(**) excluding Ontario, as data not amenable to averaging

Source: Provincial Geologists Journal 1988

19.106 A mining royalty produces a revenue to the Crown in exchange for the removal of a Crown asset from the ground. In the Territories, the royalty for placer mining is calculated as a fixed charge based on shipment; for hardrock mining, it is based on net mineral sales. For 1988/89, royalties collected were $13.7 million.

19.107 The royalty for gold placer mining was originally based on 2.5 percent of the value of raw gold at $15 per ounce, which is obviously far below today's price for gold. It is payable only upon export from the Yukon, and its collection is based on an honour system. The quantity of gold shipped is either weighed at the Mining Recorder's office or declared. There is no control in place to ensure that all gold shipped out of the Yukon has been reported, and consequently, that all royalties are collected.

19.108 DIAND should review and revise the rate structure for fees and rentals on mineral lands. It should also consider alternative methods for calculating and collecting placer royalties.

Department's response: *The Department will review mining fees, rentals and royalties in its effort to modernize northern mining legislation.*

20

Department of National Defence

Human Resource Management Planning and Personnel Management

Department of National Defence

Human Resource Management Planning and Personnel Management

Main Points

20.1 Military institutions have differences from public sector or private organizations that require unique approaches to human resource management (HRM) to accommodate their needs (paragraphs 20.8 to 20.18).

20.2 In each of the areas we examined as part of our audit of HRM in the Department of National Defence (DND) -- planning and personnel management, conditions of service, training and medical support -- we identified deficiencies, namely:

- The HRM system is not suitably designed for conditions of combat or war and has shown significant shortcomings during exercises simulating wartime conditions (20.35 to 20.45).
- There are significant opportunities for improvement and cost savings in the day-to-day management of DND's human resources (20.41 to 20.44 and Chapters 21, 22 and 23).
- As we reported in 1984 and 1987, the Department still needs a longer-term focus to guide HRM and other departmental activities (20.32 to 20.34).

20.3 In the area of military personnel management - a major and critical sub-component of the HRM system -- we found that:

- it is not designed or managed as an integrated system (20.46 to 20.55);
- effective management tools and processes are needed to understand and manage the dynamics of the personnel management system (20.48 to 20.51); and
- the merit assessment process could be made more efficient and cost-effective (20.56 to 20.59).

Table of Contents

Paragraph

Introduction 20.4
- Military organizations are unique and complex (20.9)
- Leadership, discipline, morale and commitment are critical (20.13)
- Human resource management must respond to these factors (20.16)
- Unification and integration have had serious implications for HRM (20.19)

Previous Audits 20.23

Audit Scope 20.25

General Assessment 20.28

Observations and Recommendations 20.31

- Force Structure Planning 20.32
  - Can the HRM system serve its intended purpose? (20.35)
- The Military Personnel Management System 20.46
- The Merit Assessment Process Is Overly Complex 20.56
- Conditions of Service Are not Designed to Serve Strategic Goals 20.60
- Training Will Be an Important Element in Meeting Mobilization Needs 20.71
- Accountability to Parliament Should Be Strengthened 20.77

Department of National Defence

Human Resource Management Planning and Personnel Management

Introduction

20.4 This chapter and the three that follow focus on DND's management of human resources, primarily in the regular force component of the Canadian Armed Forces. They show the links to the management of Reserve and civilian personnel, and to the overall management systems and processes used to co-ordinate these three personnel resource groups of the Department.

20.5 Military capability comprises operations and administration; administration can be roughly divided into materiel support and personnel support. Both involve similar functions of acquisition, movement and maintenance. Materiel support pertains to the physical assets needed to support the forces during operations, while personnel support pertains to members of the forces themselves. Materiel support can be broadly equated to materiel management in civilian organizations, while personnel support includes the functions normally associated with human resources management (HRM), plus a number of others that are unique to the military.

20.6 Both support systems must be able to operate effectively even in an intense and unpredictable combat environment. In peacetime they are expected to function with due regard to economy and efficiency, while maintaining the capability to move quickly and smoothly to a full wartime footing.

20.7 In 1987 we reported that DND's Materiel Support system was not suitably designed for sustained conflict, and that it demonstrated significant problems with economy and efficiency in peacetime. This audit has found similar problems with the Personnel Support system.

Regular force military personnel can serve for 20 to 35 years. They commit themselves to unlimited liability, separation from family, injury or possibly even death in defence of their country. They represent a unique and important social element within the national fabric.

20.8 The military community is unique. Soldiers are developed and trained to put their lives on the line. This makes them a special component of society that is very different from the rest of the national community it may have to defend. The approaches traditionally used to manage human resources in a military organization reflect two key characteristics.

- the uniqueness and complexity of the military tasks and processes that must be understood and rapidly carried out in the event of war; and

- the importance of leadership, commitment, discipline and cohesion in encouraging people to put national interests before personal interests.

Military organizations are unique and complex

20.9 The command, control and support arrangements needed to deliver an effective and sustainable military capability over long distances are highly complex. In war, hundreds

Military personnel are expected to carry out their tasks under varying conditions (see paragraphs 20.9 and 20.10).

of thousands of men and women, along with all the supplies and support services they need, must be deployed quickly and be available in sufficient numbers wherever and whenever required, often under hostile and constantly changing conditions. Even in peacetime, the concepts underlying military service are very complex, can take many years to learn and require extensive exercises to perfect.

20.10 Most military tasks and activities are unique. Even those that appear similar to tasks in the public or private sectors -- for example, driving a truck -- must be carried out in a setting that has no parallel outside the military. Understanding and practising the complex concepts of command, control and military operations in combat places additional demands on members of the forces.

20.11 Like other professional organizations, the military accepts people while young and trains and develops them in areas of specialization. As skills and maturity develop, the best can move up in the organization and accept greater responsibility. Military personnel tend to stay within their occupational groups throughout their military careers.

20.12 A key difference between the military and other professional organizations, however, is that the military cannot go outside to find suitably qualified candidates for positions above the entry level. Other organizations, such as hospitals or engineering firms, can use pay or other benefits to attract qualified candidates at all levels. But there is no place outside the Canadian Armed Forces for an individual to learn the military craft and develop the leadership skills needed to induce others to persist under fire in the face of combat losses. The Armed Forces cannot look to civilian organizations for someone qualified to lead a division of ten to fifteen thousand soldiers into battle, along with the necessary support organizations. With career horizons that can span 35 years, and no opportunity to meet operational needs from outside, the requirement for effective HRM planning is crucial.

Leadership, discipline, morale and commitment are critical

20.13 In times of war, members of the armed forces are expected to perform their duties in an extremely hostile environment, where the possibility of injury or death is real. People will not accept these risks and fight successfully without the morale, commitment, discipline and unit cohesion that are derived from good leadership.

20.14 Although pay provides a basic general standard of living for armed forces members, it alone cannot achieve the kind of commitment that is needed. Military organizations typically rely on a range of other approaches to inspire the necessary commitment and unit cohesion.

These include emphasizing loyalty to country and to the unit, providing a system of care for members and their dependents, and leadership based on example rather than on purely civilian management practices. Other instruments include ceremonies, awards, professional recognition and similarly institutional methods intended to foster a sense of two-way commitment and esprit de corps.

20.15 Leadership is a key element of this institutional approach. Military human resource management systems must therefore encourage, develop and reward good leadership.

Human resource management must respond to these factors

20.16 The unique nature of military institutions and leadership has enormous significance for the way human resources must be managed in the armed forces. Personnel are recruited at the bottom of the rank structure and assigned to a specialty field known as a "military occupational classification", or "MOC". In the Canadian Forces, each individual's career is managed through a series of assignments and training courses designed to develop the necessary experience, skills and knowledge. Throughout the process, commitment and leadership skills are also developed. Those who excel in these areas are promoted, leaving spaces that must be filled. Other vacancies are created by many who may leave the forces at various stages in their careers for a variety of reasons. All of these vacant positions must be filled from the ranks below.

20.17 Simply stated, this creates a complex and dynamic flow structure that must be designed and managed to meet the long-term needs of the forces. Failure to do this can have serious implications. For example, if the rate of attrition at the upper ranks is too high, people may be required to move from the lower ranks before they have had time to develop the necessary skills, placing a heavy load on the recruiting and training systems. If attrition is too low, career progression is stifled, the average age at all ranks can become unacceptably high, and dissatisfaction can set in. The same kinds of results can occur if the ratio of positions to various levels of rank is not carefully selected.

20.18 The unique characteristics of the military also affect the role of compensation and the range of other instruments that are used, the way performance is measured, and the way training is delivered.

Unification and integration have had serious implications for HRM

20.19 In the late 1960s and early 1970s a series of dramatic changes was made to the structure of DND. In 1965, the headquarters of the Army, Navy and Air Force were pulled together into a combined military headquarters. Shortly after, in 1968, the three services were unified into one common service. Then in 1972 the civilian and military headquarters were combined into an integrated departmental headquarters.

20.20 These changes generated considerable confusion and debate. The number of MOCs in the Army, Navy and Air Force was reduced from 350 to around 140. Virtually all decision-making for management and support was centralized at the new headquarters. Existing support relationships between field units and service headquarters began to disappear, but the characteristics of the new system were not clearly defined.

20.21 During the 70s, many of the systems and processes in DND were designed against a notion of "Forces-in-Being", which implied heavy reliance on nuclear deterrence. Emphasis on the need for a sustainable conventional capability was reduced and some of the systems and practices that were put in place were designed against this assumption or against purely peacetime considerations.

20.22 The shape of the new Department of National Defence and of the Canadian Forces gradually emerged as a result of a series of short-term decisions, made in the absence of an agreed longer-term plan.

Previous Audits

20.23 In our 1984 audit we had observed that the Department was still attempting to adjust to the effects of unification and integration. We concluded at the time that there was no formally defined personnel planning system in the Department. We recommended that the Department design and implement a force structure that would define its peacetime requirements and link them to wartime needs, along with a mobilization plan to move efficiently from peace to war. A key aspect of our recommendation was the need for longer-term stability in the force structure.

20.24 In 1987 we reported on our audit of the Materiel Support system, which plays such an important role in making sure that soldiers in battle receive the combat supplies and goods needed to sustain them. We had found that the Materiel Support system was not suitably developed for sustained conflict and that, for many of the same reasons, the supply system exhibited significant economy and efficiency difficulties in peacetime.

Audit Scope

20.25 At the corporate level we examined the extent to which human resource planning and feedback processes meet the needs of the Department and the Canadian Forces. We focussed our detailed examinations on the regular force.

20.26 We assessed the regular force HRM system against two key criteria: could it serve its intended purpose, and was it managed with due regard to economy and efficiency in peacetime? The four areas we examined were:

- **personnel management**, which includes the policy framework within which HRM takes place, the classification structure, and the processes used to determine who is promoted;
- **conditions of service**, which includes pay, allowances, benefits and a range of personnel services;
- **training**, including individual training, collective training and professional development; and
- **medical support**, which provides the critical services of preventing disease and injury and treating the sick and wounded in battle.

We examined military human resource management as a total integrated system. As we had found in 1987 for materiel support, the personnel support system is not suitably designed for war and demonstrates many efficiency and economy difficulties in peace. There is a high degree of centralization and a general need to design and manage the system as an integrated whole.

20.27 This chapter deals with the corporate level planning and feedback processes and with the personnel management area. The three chapters that follow this one deal with conditions of service, training and medical support.

General Assessment

20.28 The Department faces a large and complex challenge in human resource management. Throughout the audit we noted a high level of commitment and personal effort toward making the system work to serve the needs of the members of the Canadian Armed Forces. Nevertheless, there are several important areas where the system needs improvement.

20.29 The DND Human Resource Management system was not designed to function in war and has been shown to have significant shortcomings during operational exercises simulating wartime conditions. We observed the effects of the absence of a wartime perspective and an integrated plan in each of the four areas that we examined in detail.

20.30 Our audit also raised many concerns about the peacetime operation of the military HRM system. We believe there are opportunities to manage the elements of HRM as an integrated system linked to an overall force structure; to simplify many of the current processes to increase delegation to managers, allowing them greater discretion and flexibility to implement policies that meet their unique needs, and correspondingly giving them more control over their resources; and to improve economy and efficiency.

Observations and Recommendations

20.31 Human resource management is the process of hiring, developing, motivating, deploying and retaining or releasing people in response to the requirements of an organization. To be efficient and effective, HRM in the Canadian Forces must respond to a clearly understood set of objectives and must include at least the following features:

- a structure and organization best suited to achieving the longer-term objectives of the Canadian Forces.

- a categorization of the individual positions comprising this force structure into manageable groups designed to meet operational and HRM needs, and a set of policies to support them. These groups are referred to by the Department as Military Occupational Classifications -- or MOCs.

- a method of defining the skills, knowledge or aptitudes most valued by the organization, and using these to motivate members and to identify those who should be promoted. This is referred to as the merit assessment and promotion system.

- a compensation system including both monetary and non-monetary components, to support in an economic and efficient way the organization's goals for attracting, retaining and motivating people. This system is referred to in this report as Conditions of Service.

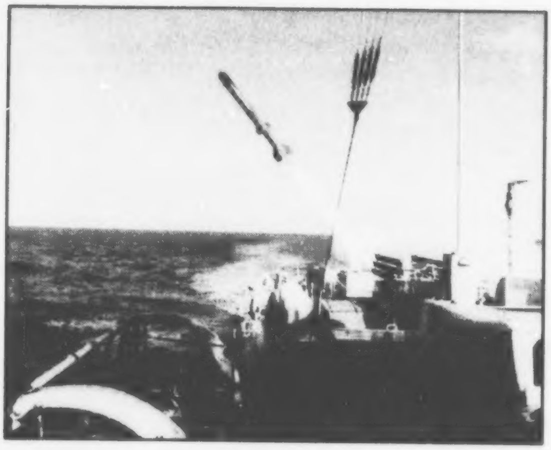
- training and development programs that support operational requirements.

- management information systems and feedback processes.

Force Structure Planning

20.32 In 1984 and 1987 we reported that the Canadian Armed Forces lacks a force structure for the longer term that would be the starting point for all other management processes, including HRM. Over the past few years, the Department has created a new organization in National Defence Headquarters for operational planning and force development, and has produced a Canadian Forces Development Plan to fulfil current commitments. This structure must be changed every time commitments or budgets change. The dramatic changes that are now taking place in eastern Europe are causing another round of force development planning, at a time of increasing fiscal restraint.

20.33 While there will always be a requirement for force development against current commitments, there is a recognition in DND that what is needed is a force structure for the longer term, designed to provide a more general capability -- one that is sufficiently flexible to respond to a changing world environment and capable of responding to a wide range of tasks without necessitating a major re-design. This approach would allow the efficient application of resources, and also provide the longer-term stability required for



Preparing to meet defence commitments (see paragraphs 20.33 and 20.38).

day-to-day policy decisions that affect the 20- to 35-year life cycles of human resources and equipment.

20.34 In addition to a revised Canadian Forces Development Plan, the Department should design and approve a force structure for the longer term that can fulfil peacetime and wartime commitments, and that can provide the flexibility and stability needed to efficiently manage the Canadian Forces.

Department's response*: A revised force structure based on defined policies and general funding commitments will be developed to permit long-term stability and maintenance of the state-of-the-art military capabilities to meet the requirements of a viable, flexible military force for Canada. Planning for the very long term will continue to be based on the premise that Canada must have a navy, an army and an airforce, that each must maintain a general war-fighting capability and that such forces should be geographically balanced across Canada.*

Can the HRM system serve its intended purpose?

20.35 Operational capability depends heavily on administration -- that is, personnel and materiel support. In 1987 we noted that the Materiel Support system was not suitably designed for sustained conflict and that it had many shortcomings in peacetime operations. We have found similar deficiencies in the Personnel Support system.

20.36 Determining wartime requirements. In each of the areas we examined, there were significant deficiencies in the methods for determining wartime requirements or in identifying how those requirements would be met.

20.37 For example, the personnel management system is a highly centralized peacetime system. It was not designed to function properly in war and does not include the essential components and doctrine for combat service support. The Department has begun to recognize these shortcomings and has developed plans for a far more decentralized process which might be used in war. These have not been adequately tested in a major exercise, and the entire concept needs to be reviewed to ensure that the procedures and processes routinely used in peacetime are not substantially different from those required for war.

20.38 Neither the national headquarters nor the Environmental Command Headquarters have plans for mobilizing their training structures. Although there are estimates of the numbers of people that would have to be recruited and then trained in different skill areas, these numbers have not been incorporated in planning. The Department has not determined where it would find recruits, or what the impact would be of competition between the military and industry for people with similar skills.

20.39 In the critical area of medical support the Department has generally defined the nature of the support that would be needed in war, but has not determined its extent. Under conditions of sustained operations it is anticipated that thousands of patients would need to be cared for and evacuated to medical facilities capable of providing the necessary care. The responsibility for planning to meet this need was clarified during the course of our audit and the process should be enhanced with the recent establishment of the Canadian Forces Hospital and Medical Supply System Comprehensive medical support doctrine has been developed for the land forces but not for the navy or air force. A concept of operations for strategic medical support has been proposed but not yet approved.

20.40 In the area of pay, the Forces have yet to define the levels of pay that would be provided in wartime to the members of an expanded force, or to identify methods of delivering it and the kind of support that would be provided to dependents left behind.

20.41 Existing capabilities were found to be inadequate. The personnel system was designed primarily against peacetime requirements and it has experienced problems, during operational exercises, in meeting wartime requirements.

20.42 During the audit, Canadian Forces Organization Orders were issued, stating the wartime roles of the six regional hospitals and the National Defence Medical Centre. However, there are no stated wartime tasks for the 52 base hospitals and clinics. DND is now working on an emergency hospitalization plan with the Department of National Health and Welfare, but so far no comprehensive assessment has been made of the requirements or the capability of the civilian health care agencies to respond to Canadian Forces requirements. The Department has indicated that there is a critical national deficiency in the capability to treat burn victims. Little consideration is given to the unique requirements of wartime or expansion when planning the construction or renovation of medical facilities

20.43 There are also no defined wartime objectives for the individual training system. Planners of this system -- which delivers about 2.3 million training days and costs about $500 million each year -- are awaiting the results of force structure efforts at higher levels before proceeding to define their own wartime requirements. Estimates have been made of the numbers of additional members that would be needed during mobilization, to expand the forces. Based on these figures, studies suggest potential difficulties in mobilizing the training system and in qualifying the required number of people. The Department has not identified where it would obtain the necessary skills. It is not known whether individuals now available in the Reserve force could meet required standards for physical condition or other qualifications.

20.44 Existing management information systems were designed for peacetime needs and would have to be abandoned or dramatically changed during mobilization. This means that unfamiliar processes would be introduced at a time of extreme confusion when the need for order and efficiency would be greatest.

DND has taken some steps to identify wartime requirements for the HRM system, but there is a great deal that still needs to be done to address the concerns we have raised in this report.

20.45 The Department should define wartime requirements for all aspects of its human resource management system. These requirements should then provide a basis for determining the minimum structure needed in peacetime, and for designing a process to move efficiently from a peacetime to a wartime footing.

Department's response: *Wartime and peacetime establishments will be determined to identify individual positions and groups of positions to meet the human resource needs of the Canadian Forces based on a revised Force Development Plan and Force Structure.*

The Military Personnel Management System

20.46 The military personnel management system is a highly complex, hierarchical and closed structure through which 87,000 members are managed for up to 20 to 35 years, from recruitment to retirement. Essentially, it is the central nervous system of the entire regular force HRM process. Every year, between 6,000 and 8,000 members leave the system and are replaced by new recruits who start at the bottom as privates or officer cadets. Currently about 30,000 postings are required every year to fill positions made vacant as a result of training, personnel development or attrition. The shape of the MOCs, and the HRM policies that regulate the flow of people through them, determine important factors such as average age by rank, time in rank, promotion opportunities within an MOC, equity among MOCs, and the average length of time people stay in the forces.

20.47 The elements of the HRM system interact in a complex way. The entire peacetime training structure exists to serve the developmental needs defined by the MOC structure which, in turn, is shaped by the operational requirements of combat. The shape of an MOC in combination with the HRM policies influences promotion opportunity, which is an important element of conditions of service and has a significant effect on morale. This in turn can affect the rate of attrition, which generates promotions and postings and initiates a new cycle of recruiting and training. The entire peacetime HRM system is thus a huge integrated structure, and a change in one part triggers other changes throughout the system.

20.48 The Department does not have, at present, the management tools needed to understand the dynamics of the personnel management system and the consequences, for the entire HRM system, of adopting various policies. Over the years there has been a tendency to address symptoms one at a time, rather than to deal with the overall design of the structure. This has resulted in a proliferation of policies, each designed to solve individual problems, and in ever-increasing complexity.

20.49 The outputs of the current system are now driven by a set of over 125 military personnel policies, enunciated in a variety of orders and instructions that occupy thousands of pages of text. These policies have

Military human resource management involves total care of serving members and their families over a working lifetime. It is one of the most complex of all personnel systems -- one that must be carefully designed and managed as a total, integrated system.

accumulated over the course of three decades as responses to short-term problems.

20.50 As a result, personnel management in the Canadian Forces is adversely affected to a significant extent. Managers are unable to determine exactly what their complex matrix of policies will produce in years to come, including average age by rank and MOC; the average time spent at each rank for development and the gaining of experience; the average career horizon or career expectation affecting recruits in each MOC; the average length of time that recruits will stay in the service in each MOC; and, among other things, the attrition rates that the CF must manage if it is to achieve the desired characteristics.

20.51 This general inability to plan and manage the key variables of the system and to predict the effects of policy alternatives affects virtually everything else in the system. We noted a variety of related problems throughout the system. For example, there has been a steady drift to larger and larger numbers of officers and non-commissioned officers, with fewer and fewer line units to lead. The senior ranks now appear disproportionately large in comparison with the overall size of the Forces and the number of line units. This has developed primarily to accommodate a growth in the number of staff positions. To meet the demands created by even normal attrition in the upper ranks, large numbers of lieutenants are being commissioned for whom no first operational job exists.

20.52 There has been a tendency to establish small splinter MOCs for specialty skills. Currently, almost 50 percent of the officer MOCs represent less than 10 percent of officer strength. Most of these splinter MOCs are experiencing problems of one kind or another that can affect the retention and morale of staff. These MOCs are often staff or specialist groups whose members will never command line units. Rank is awarded as a means of increasing pay, which dilutes the principle of conferring rank commensurate with command responsibilities.

20.53 There are "Get Well Programs" for a number of MOCs experiencing difficulties in meeting manning targets. Often the need for these programs arises from the way the MOCs and the personnel policy structure have been designed. The tendency, however, is to attempt to correct the problem with accelerated recruiting, pay adjustments or the use of allowances, rather than by correcting the structure of the MOC.

20.54 The Department has initiated a number of special programs in an attempt to better manage the flow of people through the MOC structure. Many of these, such as the Officer Career Development Program (OCDP) introduced in the early 70s, often result in new difficulties without addressing the original problem. The OCDP was set up so that members could be released in order to produce appropriate age distributions within MOCs. Release points were designated after 9 years and 20 years of service, with appropriate separation terms. This complex management tool has been largely inoperative almost since inception. Attrition rates have never been low enough to use enforced early retirement to any significant degree. In the process, moreover, the attitude of serving members toward a lifetime career of military service may have changed significantly, thus increasing even the original attrition rates.

20.55 The MOC structure and associated personnel management policies should be

reviewed against the longer-term force structure needs of the Department, and re-designed as appropriate. To support this, the Department should develop the management tools needed to understand the dynamics of the HRM system and the long-term effects created by various policy decisions. The existing set of personnel policies should be reviewed and simplified to support the objectives of the forces and the needs of a re-designed MOC structure.

Department's response: *The MOC structure is submitted to an annual review and changes are made in keeping with Force Structure changes. Existing personnel policies and management tools in support of the MOC structure will be reviewed and re-focussed in a new Personnel Policy Project office. As well, the existing personnel management procedures manual is currently being updated to reflect changes to the human resources management system of the Department of National Defence.*

The Merit Assessment Process Is Overly Complex

20.56 The merit process used in the Canadian Forces is one of the most sophisticated of its kind. Complex and highly structured, it is intended to ensure fairness in rating individuals and in selecting people for promotion.

20.57 Every year a formal, written appraisal is prepared for each non-commissioned member and officer below the rank of general. In all, over 80,000 of these reports are written, and reviewed through the chain of command. At a given point in the year a board is assembled at NDHQ for every rank within each of the 137 MOCs. Members in each of these "cells" are then placed in order of merit, according to current and previous appraisals. The people promoted in a given year are those who rank highest on this merit list. In peacetime, the ultimate reward is promotion which, as we have noted, should be awarded to those with superior leadership and military skills.

20.58 We examined the merit assessment process and concluded that it could be made more efficient and cost-effective. The Department has agreed and will initiate a thorough review.

20.59 The merit assessment and ranking process should be subjected to a major review. Where possible, the process should be made more efficient and cost-effective.

Department's response: *It is agreed to undertake a review of the merit system to make it more efficient and effective where possible.*

Conditions of Service Are not Designed to Serve Strategic Goals

20.60 Organizations depend on people with appropriate skills, knowledge and motivation. People who are dissatisfied, on balance, with the monetary and non-monetary conditions of their employment usually leave. If appropriate attributes are not recognized and rewarded, the organization can drift from its original goals, and effectiveness will be diminished.

The Department of National Defence and the Treasury Board Secretariat are jointly responsible for advising the Treasury Board ministers on military pay and other conditions of service.

20.61 Besides promotion, the Canadian Armed Forces employs over 170 monetary and non-monetary elements that comprise what we have labelled Conditions of Service, including pay, allowances, other benefits such as pensions, professional development, recognition and awards and a range of personnel services.

Although the authority for determining military pay and allowances rests with the Treasury Board, a joint DND/TBS (Treasury Board Secretariat) advisory group is responsible for advising Treasury Board ministers on changes to pay and many of the other conditions of service, which are administered at the National Headquarters by 40 different directorates.

20.62 The unique needs of the military imply that pay and other conditions of service should be designed and applied in a manner that encourages leadership, loyalty and commitment. They must also support, in a cost-effective way, the Forces' goals for attracting, retaining and motivating the numbers and kinds of people required.

20.63 Before unification the Army, the Navy and the Air Force had different rates of pay and different support services for members and their families. Along with the MOC structure that was put into place in the late 1960s after unification, a new, common system of conditions of service was adopted, administered at the National Headquarters. Although this common system provides for consistency, it no longer accommodates some of the fundamental differences between the operational environments and thus, in some cases, is not equitable.

20.64 The government policy at that time was military "pay parity" with the public and private sectors. This policy reaffirmed the government's objective of being a fair employer, by providing a basis for the military to take into account changes resulting from public service collective bargaining. Over time, it was concluded that it was not possible to determine parity, and a goal of "comparability" was established instead. However, with no available measures to assess whether pay and other conditions of service were achieving force goals, the DND/TBS Advisory Group focussed mainly on developing and applying processes and methodology for determining comparability with the public service. There has been no recent review of conditions of service to ensure that, as a whole, they are structured and applied in a manner that supports clearly defined objectives for military personnel management, based on a longer-term force structure plan.

We found that military conditions of service are not designed and applied in a manner that supports clearly defined military personnel management objectives.

20.65 This focus on processes to achieve comparability has had three results. The first is a complicated method of calculating comparable rates of compensation, including pay and certain other conditions of service. As our chapter on conditions of service notes, the relevance of this process to the Forces' personnel management goals is highly questionable, and the methods used are flawed.

20.66 Second, a universal and inflexible system has evolved, many of whose benefits and services were originally intended to compensate for such factors as isolation or hardship, and to ensure an adequate standard of living for members and their families. Although some of these benefits and services appear to address traditional military-oriented social and cultural values, in some cases their objectives or purposes are no longer clear, and there are significant cost implications. For example, is the purpose of military housing only to provide accommodation, or also to provide a community that meets the needs of military members and their families, in return for their loyalty and commitment?

20.67 Third, the principle of pay and rank for command has not been clearly defined, with criteria for exceptions. Emphasis on awards, medals and other forms of recognition has declined and mechanisms to provide additional pay have increased. The principle of equal pay for equal rank has been eroded by using specialist pay for some officer classifications, granting specialty pay based on job evaluations for many non-commissioned members (NCM) classifications, using allowances to reward some skills, and awarding performance pay to approximately one-third of the senior officers.

20.68 Although an initiative is under way to provide information that will be useful in determining why people join and leave the military, the Department does not yet have an ongoing basis for evaluating the effectiveness of its conditions of service, selectively or as a whole. There is no systematic process to determine why people leave, or perhaps more important, why they stay.

20.69 Military conditions of service are dealt with in more detail in Chapter 21.

20.70 The conditions of service should be designed and managed to support, in a co-ordinated way, clearly defined objectives for military personnel management based on a longer-term force structure plan. A process should be established for monitoring the extent to which these objectives are achieved, and for identifying and addressing sources of problems.

***Department's response**: The recommendation is accepted; however, implementation must await development of the revised Force Development Plan and Force Structure discussed previously.*

Training Will Be an Important Element in Meeting Mobilization Needs

20.71 Training requirements are determined by the design of the MOC structure and by the flow of people through it.

20.72 The DND individual training system was designed to meet the needs of the existing MOC structure. Courses for "green" classifications -- that is, those that appear common to more than one environment -- are taught by the central training system. Courses related to unique environmental requirements are provided by the separate commands.

Improved processes are needed to ensure that training meets departmental objectives in the most cost-effective way.

20.73 A number of trade-offs would have to be made if the training system were to be cost-effective. At a basic level, the MOC structure should be designed to achieve operational and morale goals, and then to group in an efficient manner the skills required by the force structure. Then, appropriate methods should be chosen to develop various skills -- on the job, in exercises, in the classroom, or through other approaches such as self-study. Next, if the classroom were the chosen approach, opportunities could be identified to improve efficiency by grouping training. The effectiveness of the training system should then be monitored systematically to see that training remains relevant and efficient, and a mechanism should be put in place to make any necessary adjustments.

20.74 The Department's current policy requires that these steps be carried out. The processes now in place, however, are complex and not supported by clearly defined accountability relationships. There are no processes to ensure the continued relevance of training.

20.75 The existing system trains large numbers of individuals to meet a set of standardized specifications at particular points in their careers. This process does not appear suitable for a military service where jobs can vary widely and where personnel are frequently rotated.

20.76 The subject of military training and development is dealt with in Chapter 22.

Accountability to Parliament Should Be Strengthened

20.77 In 1988 we recommended that the Department prepare indicators of defence capability and report them to Parliament. Defence organizations in some other countries provide public reports on matters such as readiness, sustainability, combat capability and force structure goals, including the availability of reserves. DND does not report any such indicators, in the interest of national security. In response to another of our recommendations in 1984, the Department is now testing a system to monitor readiness, but so far there are no plans to report any resulting information to Parliament.

20.78 This audit and the 1987 audit of Materiel Support identified significant deficiencies in the Department's ability to meet its wartime role. Accountability to Parliament would be improved if more information were regularly provided about these and other important capability areas.

21

Department of National Defence

Human Resource Management
Military Conditions of Service

Department of National Defence

Human Resource Management Military Conditions of Service

Main Points

21.1 Conditions of service include pay, benefits and allowances received by members of the Canadian Forces, as well as a wide range of services and supplemental benefits intended to adjust for special conditions, or to develop commitment and an ethos. There are over 170 elements, many of which are intended to respond to the unique nature of a career in the military. Within conditions of service, expenditures on military pay and allowances alone amounted to $3.3 billion in 1989 (paragraphs 21.6 to 21.11).

21.2 As with the other functions of the human resource management system, conditions of service underwent dramatic changes with the unification of the forces. The processes now in place to determine and adjust conditions of service are a result of changes that have been made over the last two decades in the absence of clear policies and plans (21.11 to 21.34).

21.3 The result has been a fragmented policy on conditions of service, and the isolation of elements from each other and from the Department's goals to attract, retain and motivate personnel (21.15 to 21.43).

21.4 We are concerned about many aspects of the equity, relevance, and purpose of elements that are now in place. We also question the validity and efficiency of many of the management processes (21.17 to 21.35).

21.5 We recommend a fundamental systemic review of conditions of service. We also recommend that the processes used to manage them, including the DND/Treasury Board Secretariat relationship, be reviewed and modified (21.35 to 21.44).

Table of Contents

Paragraph

Introduction 21.6

Audit Scope 21.12

General Assessment 21.13

Observations and Recommendations

Need to Clarify Important Policies 21.15
- Institutional or occupational? (21.17)
- What does comparability with the public service mean? (21.24)
- What is the purpose of the other elements? (21.32)

Need for a Broad-based Review 21.35

Management Processes Should Also Be Reviewed 21.37

Exhibit

21.1 Military Conditions of Service

Department of National Defence

Human Resource Management
Military Conditions of Service

Introduction

21.6 Chapter 20 describes some of the important distinctions between military organizations and public or private sector organizations, which affect the design of pay and other conditions of service. These include fundamental differences in the jobs performed; the military's need for leadership and the degree of commitment required to place country before self; the absence of collective bargaining; and the closed nature of the military system, which means that all skills are developed by the organization.

21.7 Military organizations have developed policies and practices that emphasize institutional characteristics. With respect to conditions of service, these include a need to base pay more on rank and seniority than on specific skills required or jobs performed; the maintenance of a military community with its own network of facilities and support programs; and prestige and recognition for professional achievement. This reflects the fundamental differences between military service and civilian employment; the differences between joining the military and adopting its way of life, and taking a civilian job. Despite these differences, however, the military must still be perceived as a fair employer.

21.8 We have grouped the approximately 170 monetary and non-monetary elements under the broad label "conditions of service". Exhibit 21.1 shows the principal components as pay; allowances; benefits such as leave and pensions; professional development and recognition, status and awards; and support services and lifestyle considerations for members and their dependants and spouses. Not included in the figure is another important factor that can significantly affect members' morale and commitment -- quality of service life. This includes less tangible factors such as pride in service; hazard and risk; and the availability of modern equipment.

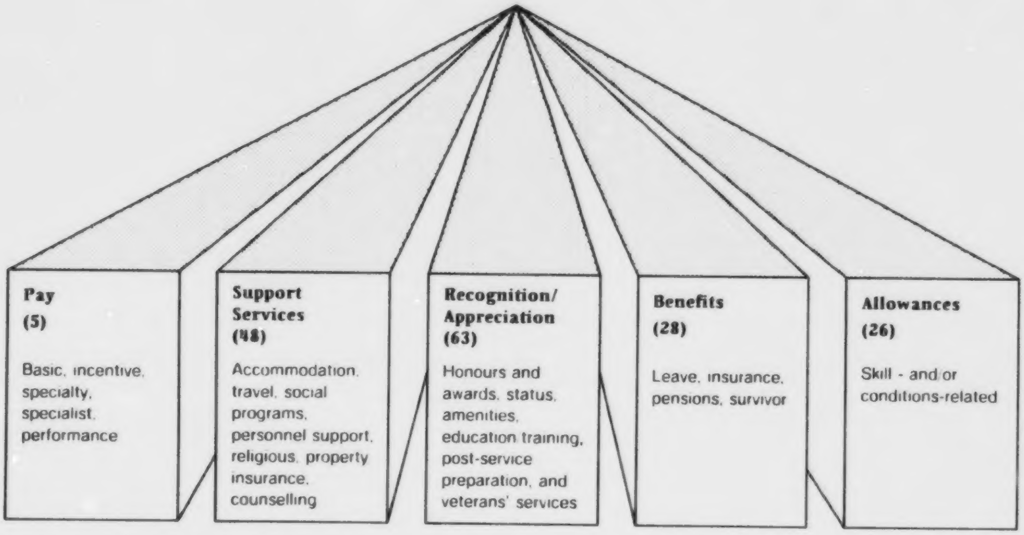
DND employs over 170 different conditions of service, many of which are intended to respond to the unique nature of a career in the military. DND and the Treasury Board are jointly responsible for military pay and allowances.

21.9 The policies pertaining to conditions of service are administered at National Defence Headquarters by 40 directorates, and are contained in nine volumes of the Canadian Forces Administrative Orders (CFAO).

21.10 According to the National Defence Act, Treasury Board has the responsibility and authority to establish pay and allowances for the Canadian Forces. Responsibility for advising Treasury Board on these and many other conditions of service is shared by the Department and the Treasury Board Secretariat (TBS). In 1989/90 direct expenditures for regular military pay, special pay and allowances amounted to approximately $3.3 billion, or about 29 percent of expenditures by DND. The cost of non-monetary elements of conditions of service, although significant, cannot be easily identified (see Exhibit 21.1).

Exhibit 21.1

MILITARY CONDITIONS OF SERVICE


Pay
(5)
Basic, incentive, specialty, specialist, performance
Support Services
(48)
Accommodation, travel, social programs, personnel support, religious, property insurance, counselling
Recognition/ Appreciation
(63)
Honours and awards, status, amenities, education training, post-service preparation, and veterans' services
Benefits
(28)
Leave, insurance, pensions, survivor
Allowances
(26)
Skill - and/or conditions-related

Military conditions of service include 170 elements that can be grouped as illustrated.

21.11 Until 1967 the Army, Navy and Air Force had separate systems for administering conditions of service. These systems were highly institutional in character, and relied heavily on non-monetary features such as free rations and quarters and financially supported messes. With unification, a new uniform, Canadian Forces rank and trade structure and a modified common pay structure were established, administered by National Headquarters. In many ways this no longer reflected the differences between the land, sea and air environments and also reduced the emphasis on non-monetary elements. Pay and other benefits were to be determined on the basis of "comparability" with the public service but, as we describe later, the meaning of this was not made clear.

Audit Scope

21.12 We examined the extent to which military conditions of service are structured and applied to meet military requirements and objectives effectively, efficiently and economically. We reviewed the systems and practices used to determine goals for attracting, retaining and motivating personnel, and to report on the extent to which these goals are met. We also examined the management of some key elements of pay, allowances, benefits and personnel support services. We did not attempt to determine whether conditions of service were appropriate or adequate.

General Assessment

21.13 Decisions about military conditions of service are made in a framework of quasi-negotiations between the Department and the Treasury Board Secretariat. Although DND and TBS are jointly responsible for advising Treasury Board on military conditions of service, as the process has evolved DND develops proposals and then negotiates them with the Secretariat. This approach has resulted in piecemeal changes with little regard to their impact on the system as a whole. Systems and procedures to determine and administer the 170 elements function, in some cases, in isolation from each other and from the broader personnel management goals of the Department. This has created many problems with the way conditions of service are administered in peacetime, and has tended to emphasize processes rather than results.

21.14 There are a number of studies planned or being conducted on various aspects of managing conditions of service. However, to ensure that they are managed and function properly and conform to common personnel goals, a review is needed of how the system as a whole is managed. There is also a need for a basis more appropriate than quasi-negotiations on which to develop military conditions of service.

Observations and Recommendations

Need to Clarify Important Policies

21.15 As we noted, in the absence of an approved longer-term force structure plan, the Canadian Forces has no basis for determining its goals for attraction, retention and motivation of personnel. The objectives and principles put in place more than 20 years ago, in response to the policy of comparability with the public service, were broad and general; they did not provide sufficient guidance on three very important considerations:

- the degree to which conditions of service should reflect characteristics that are institutional (equal pay for rank, and emphasis on internal team building) or occupational (pay and benefits driven by external labour market conditions);
- how "comparability" with the Public Service was to be interpreted; and
- the degree of flexibility that could be exercised in designing and applying specific elements.

21.16 The lack of guidance in these areas, the atmosphere of quasi-negotiation and the lack of a long-term force structure to plan against have led to the evolution of a complex array of processes, difficult to link to force structure goals and resulting in inequities and lack of economy. Examples follow.

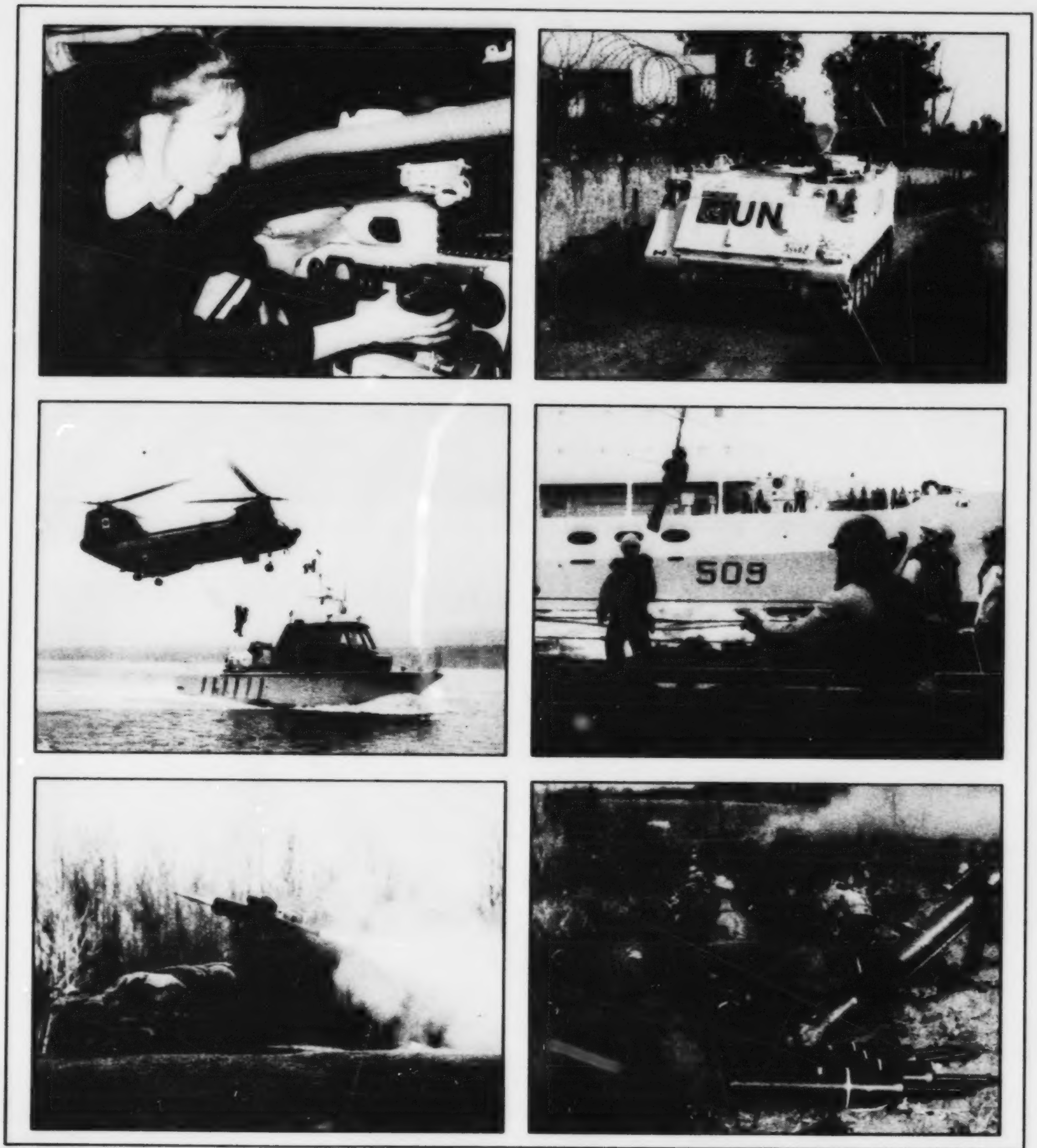
Institutional or occupational?

21.17 Although the Canadian Forces regards an institutional approach to conditions of service as its norm, there is no established policy with criteria that justify exceptions. This has resulted in a mix of institutional and occupational approaches that is hard to rationalize.

21.18 Ideally, pay in a military organization should be equal for all members at the same rank. This would support the team concept and the notion that during conflict all members are equally valued. Exceptions may be necessary for a voluntary force which must function as part of the labour market, such as we have in Canada. In some highly specialized occupations, for example, it may be impossible to attract or retain adequate numbers at the general pay rates for the Forces. It is important that exceptions be made in a planned and understandable way, to minimize the detriment to team values.

21.19 We found that many conditions of service were managed in a manner inconsistent with a team approach, and that the underlying rationale for doing so was unclear.

21.20 For example, military occupational classifications (MOCs) for non-commissioned Members (NCMs) are sorted into three pay ranges based on the level of skill associated with the jobs expected of corporals in each MOC. The criteria for determining which classifications fall in the different ranges do not clearly distinguish between different prevailing levels of job complexity at the corporal rank. The MOCs receiving specialty pay are those



To meet personnel requirements, the system of pay and conditions of service must reflect the unique demands of military life (see paragraph 21.17).

that develop skills unrelated to combat. A broad point scale is used, that includes in the same pay range jobs with widely diverse skill levels, while closely similar jobs near the cutoff points are paid at different rates. The three ranges now existing remain from the original ten in place before unification. The direction, therefore, has been toward pay for rank.

21.21 There are instances where rank has been conferred to provide more pay for occupational reasons. Furthermore, the application of pay for performance to senior officers and some lawyers, and a recent attempt to reduce attrition by giving an aircrew allowance to all pilots below the rank of lieutenant-colonel, whether or not they actually serve on aircrew, are unexplained moves away from the institutional approach.

The extent to which institutional and occupational considerations should predominate in determining and applying conditions of service needs to be clarified and communicated to members.

21.22 For over a decade, the Department has been investigating means other than promotion to increase pay for improved occupational skill. The study, now referred to as Trade Advancement for Skill and Knowledge (TASK), is attempting to come to grips with the conflict between institutional and occupational approaches. The TASK study is pointing out several major problems associated with moving away from an institutional approach. Foremost among these is the inevitable complexity of administering such a pay-for-skill system equitably, given the wide variety of work done within even a single MOC, and the constantly changing relationships in pay that would have to be continuously monitored. Another is the morale problems that would be created by having a command relationship where a senior member may earn less than someone under his or her command.

21.23 TASK represents a major shift from pay for rank and from the notion that all jobs at a given rank contribute equally to a unit's operational effectiveness. Senior officials will have to decide whether requirements for recruitment and retention of personnel call for the market-oriented occupational approach inherent in TASK, rather than the team concept that is central to the current institutional approach.

What does comparability with the public service mean ?

21.24 Although pay, benefits and other conditions of service are to be comparable with those in the public service -- to the extent possible while still recognizing unique military requirements -- there are serious inconsistencies in the methods of calculating them. Some examples follow.

21.25 **Pay.** Five different benchmarks are used to calculate pay for members of the regular force. Pay for NCMs and general service officers (GSOs), including pilots, is based on an intricate comparison of pay rates and other elements of compensation in the public service. Many of these other elements are subjective and, in some cases, it is debatable whether their inclusion in the comparability formula is appropriate. Pay for specialist officers -- medical, dental, legal -- and military senior officers is based on comparisons to pay for similar groups in the public service.

21.26 Pay for NCMs is based on a comparison of classifications between peacetime military jobs and jobs in the public service. This comparison does not consider tasks unique to the military and does not relate directly to Forces goals. For NCMs, the rank of corporal is used in matching public service jobs. Although the existence of standard and specialist pay groups produces a spread in the range of pay to corporals, it is about 15 percent of the spread in pay ranges in the public service benchmark groups. It is hard, therefore, to determine the validity of the complex process used to calculate a rate of pay when individual comparability cannot, in fact, be determined. We also found that TBS did not conduct on-site reviews to verify that job descriptions coincided with the jobs actually performed.

21.27 Increases in pay levels to GSOs are based on increases awarded to 62,000 unionized public servants. Public service pay increases are influenced not only by market forces but also by changes in classification levels, size, occupational distribution and collective bargaining. These changes do not necessarily reflect military circumstances. There is a lack of documentation to support the appropriateness of the GSO pay levels originally established when the system was implemented. Without such documentation it is not certain that overtime and other factors are considered, and therefore that current pay relationships to the public service are correct. Since October 1989 DND has been seeking an agreement with Treasury Board Secretariat on an alternative approach.

21.28 Pay levels for senior officers are tied to salaries of government executives, and the formal classification comparison on which they were initially based has not been reviewed for eight years. Specialist officers' pay is equal to that for similar occupations in the public service. Medical officers' pay has recently been increased to reduce attrition, based on a review of the public service benchmark. Dental officers have not had a pay increase in three years, in spite of a recent study that recommended increases to improve their rate of retention.

The importance of internal pay relativity must be carefully balanced against the objective of external pay comparability.

21.29 Internal relativity of pay is changing. Pay for NCMs is increasing faster than for GSOs and pay compression is occurring. There is also no consistency in pay progression within each rank. Pay increments for different ranks vary in number from four to ten. The Department is re-examining its pay incentive policies for NCMs as part of TASK, and has initiated a major study of GSO pay.

21.30 Other allowances and benefits. Salaries for NCMs and GSOs take into consideration differences in the value of certain allowances and benefits. As noted earlier, many of these elements have been included in the comparison and their relative values assigned in an atmosphere of quasi-negotiation. The extent to which many of these allowances and benefits are comparable with those of the public service is questionable, since many were set subjectively, and in some cases are offset by salary reduction. For example:

- Many allowances, including the Accommodation Assistance Allowance (AAA), posting allowance and environmental allowances, are funded by reducing the pay levels of all NCMs and GSOs to create a pool that is redistributed among the members eligible for the allowance. Although DND had asked that these allowances be granted to offset certain features of military life, it was decided instead to include them in pay calculations so that they would be subject to automatic annual adjustment. Under this arrangement, however, when these allowances are increased it correspondingly reduces the pay of all members.

- Pension and job security were combined as one item for comparison, and have not since been subject to periodic review and adjustment. The actual values of military and public service pensions have not been compared. Although some military members have less job security, actuarial reports indicate that the value of the military pension benefit is much higher. Proposed changes to pension legislation would reaffirm the government's support for funding the higher actuarial costs, primarily attributable to the retirement policies required to maintain a youthful force.

- The value assigned to overtime is also subjective. NCMs receive an additional six percent for overtime and GSOs receive four percent. Some medical doctors now receive an overtime increment as part of the recent pay adjustment approved by Treasury Board. Senior officers and other specialist officers do not receive overtime adjustments. The overtime increment paid to NCMs and GSOs is pensionable because it is incorporated into the salary structure, whereas overtime worked by public servants is not.

- The bilingual bonus paid to qualified employees of the public service has never been authorized for members of the Canadian Forces. From 1981 to 1988, credits for the bilingual bonus as well as for overtime, acting pay, etc., which measure differences between the military and the public service compensation packages, were included in the comparability processes for NCMs and GSOs. The bilingual bonus credit was removed from the comparability process in 1989.

- Arbitrary percentages have been awarded for three factors peculiar to military life, which form what is referred to as the "X factor" -- Code of Service Discipline, Separation Turbulence and Posting Turbulence. The posting turbulence included in the calculation of the "X" factor is partly offset by the payment of a posting allowance, which compensates for the same condition.

The comparison of military and public service compensation has evolved into highly structured processes that can't be linked to the Forces' objectives of attraction and retention of personnel, or to other goals such as equity.

21.31 We have had difficulty, therefore, in understanding the rationale or basis for comparability given the methods now used. We are also unable to link these highly structured processes to the personnel management objectives of the Canadian Forces.

What is the purpose of the other elements?

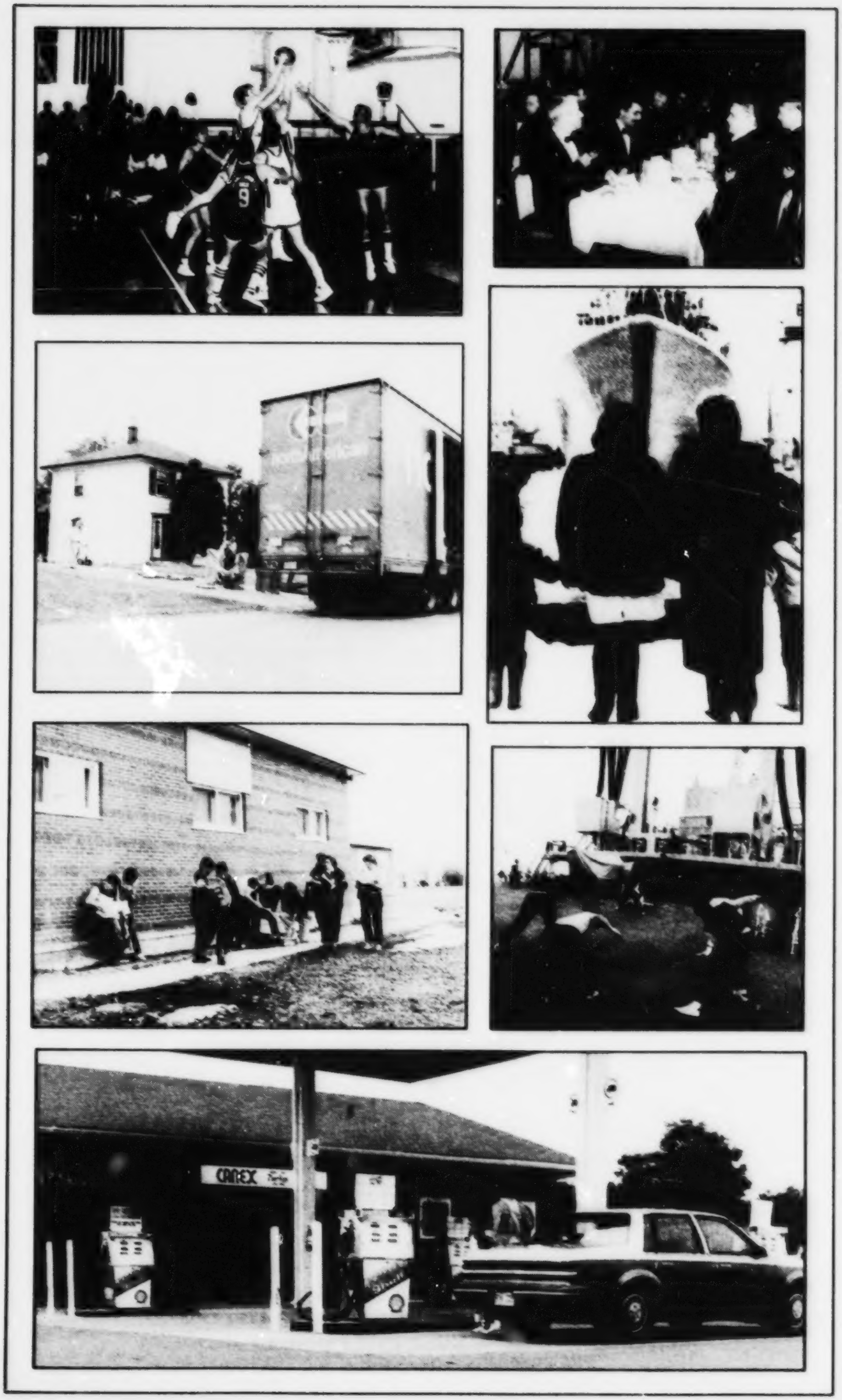
21.32 Some elements of conditions of service are intended to neutralize or offset working or living conditions, or to develop a military ethos and a sense of community. Members may be posted every two to five years, which can create disadvantages such as increased housing costs; loss of employment for a spouse; unfamiliar educational systems and medical facilities; and, in some cases, separation from spouse and children.

21.33 The main mechanisms that serve these purposes are a range of personnel services and a variety of allowances, costing more than $200 million per year. As we have noted, however, many are funded by reducing pay levels and therefore address special needs or circumstances, partly through a redistribution of pay.

21.34 We found deficiencies in the way each of these is managed. For example:

- The need for such services to military personnel and their dependents as recreational and community services, family support and the provision of basic amenities varies significantly, among environmental commands and by location. The Department is addressing the question of a consistent approach to military family support. It is not clear whether these services are to be provided in a standard way at all bases, or designed to meet specific needs. We recognize that the Department's system, using non-public funds, provides certain recreational and community service programs independent of those provided by public funds.

- The Accommodation Assistance Allowance (AAA) is out-of-date and based on inappropriate assumptions. In addition, it discriminates against home-owners, unaccompanied persons and persons living at certain locations. This has been reviewed by the Department but problems remain to be addressed, because changes would affect the salaries of NCMs and GSOs.



Support programs and services ameliorate some disadvantages associated with posting and family separation, reflecting the military's concern with maintaining the well-being and morale of its members (see paragraph 21.32).

- The Canadian Forces owns more than 20,000 married quarters (MQs). There is a policy for MQs which states in part that the government and the Canadian Forces recognize a responsibility to ensure that members have access to adequate and affordable accommodations. Treasury Board recently directed that construction of new MQs be undertaken only when there is a lack of suitable local housing. MQs are not available to all military members at all locations. The rent for MQs, based on CMHC assessments, is often lower than local market rates for private accommodation because of the age, design and location of the housing. The Department is aware of the inconsistencies in the MQ portfolio -- MQs not being available to all military members at all locations, and differences in rents across the country -- and its Accommodation Working Group is now reviewing the policy.

- Foreign service allowance provisions and their underlying rationale have not been subject to a fundamental review. For example, personnel serving at CFBs Lahr and Baden in Germany are provided an allowance of 50 percent of the Foreign Service Premium accorded public servants -- an arbitrary decision in 1975, not validated since. Some difference may be warranted, because military members in other countries usually live in communities with other Canadians, but the current level has not been established in the light of current requirements.

Need for a Broad-based Review

21.35 The Department needs policies and criteria which balance the institutional and occupational approaches and also recognize changing requirements. Greater flexibility is needed in applying instruments intended to accommodate unique military requirements, without having to reduce the pay of all members. Uncertainty about goals and how to achieve them has resulted in a proliferation of methods and philosophies for providing conditions of service. A number of particular elements need to be updated or rationalized. Overall, however, a broad-based review of conditions of service as a system is needed.

Policies intended to adjust for certain disadvantages of military service are not always designed, applied and periodically reviewed and modified as required to meet their objectives.

21.36 A broad-based review should be undertaken, of the policies, systems and methods used to establish pay and other conditions of service. These should be related to the personnel management objectives of the Forces that are based on a longer-term force structure plan, including attraction and retention of personnel, maintenance of internal relativity, offsetting the disadvantages of military service and fostering the military ethos unique to each environmental command. They should also be easy to understand and to communicate.

***Department's response**: It is agreed that a broad-based review of the policies, systems and methods used to establish conditions of service should be undertaken to ensure that they relate to the personnel management goals of the Forces.*

Management Processes Should Also Be Reviewed

21.37 As previously stated, the responsibility for advising Treasury Board on pay and certain other conditions of service is shared by the Department and Treasury Board Secretariat (TBS). Terms of reference were established in 1968 for a DND TBS Advisory Group on Military Pay and Conditions of Service. The Advisory Group is responsible for advising the Treasury Board on rates of pay and allowances; on the relationship between rates of pay and allowances in the Canadian Forces and those in the civilian sector; and on pay structure. However, the Advisory Group has seldom met since 1986 and no longer functions in a manner consistent with its original terms of reference.

21.38 During its first years, the DND TBS Advisory Group met frequently to develop a basis for comparing military and public service compensation. It developed some processes described as temporary, pending further review and adjustment. However, once they were put into place the focus shifted to their mechanics, and away from their objectives or purpose. The Treasury Board Secretariat and Canadian Forces have acknowledged the need for a broad-based review of the principles and methods used to determine conditions of service, but plans for such a review have yet to be finalized.

21.39 The nature of the TBS DND working relationship has evolved, from one of mutual interest in achieving government policy and military personnel objectives into the present one of quasi-negotiation, with the onus on the Canadian Forces to convince Treasury Board Secretariat of the need for change as problems arise. This has resulted in fragmentation of the conditions of service policy, which affects the system as a whole, accounting for many of the problems we have identified and allowing a drift away from original objectives.

The DND/TBS Advisory Group is not functioning as was intended.

21.40 A review of military conditions of service should address the Department's relationship with the Treasury Board Secretariat. In each of the last five years, intervention by ministers has been necessary to resolve major issues of compensation. In the public service a third-party review is often used to assess the fairness of pay and other benefits. This is not applicable to the military.

21.41 Although Treasury Board is responsible for military pay and allowances, TBS does not carry out a periodic and systematic review of the policies and practices used to determine and administer them.

Treasury Board Secretariat needs to strengthen its role to match its responsibility with respect to military pay and allowances.

21.42 Conditions of service are not subject to ongoing monitoring by Treasury Board Secretariat for compliance with policy, or to periodic revisions that would reflect changes in purpose or rationale. Uncertainty among members in the field about the purpose or intent of several elements has generated many inquiries to headquarters.

21.43 Although there are now processes to provide information on the Forces' ability to attract and retain members, they do not yet provide reliable information on the relative influence of the elements of conditions of service. This information is needed as a basis for considering the use of conditions of service to support personnel management objectives.

21.44 The framework for managing military conditions of service, including the TBS/DND relationship, should be reviewed and modified as appropriate. This should include the development of clearly defined and delineated TBS and DND roles and responsibilities; mechanisms to monitor and evaluate effectiveness; a basis for considering change or adjustment; and up-to-date and understandable policies, communicated to members.

Department's response: *It is agreed that the framework for managing military conditions of service including the TBS/DND relationship should be reviewed and modified as appropriate.*

22

Department of National Defence

Human Resource Management
Training and Education

Department of National Defence

Human Resource Management Training and Education

Main Points

22.1 An extensive network of schools, colleges, and specialized training facilities provides the training and education that Canadian Forces personnel require in peacetime. In wartime, this same network must be able to supply large numbers of adequately trained individuals on a sustained basis to replace casualties and to support expansion (paragraph 22.6).

22.2 We found that opportunities exist for increasing the efficiency of the training system. According to trainees surveyed, 27 percent of the individual training delivered by the Canadian Forces Training System was for tasks the individuals could already perform, and another 35 percent was for tasks that were not performed on their next job. The value of the training involved is about $165 million annually. Some of these costs could be reduced by methods such as pre-course screening, more on-the-job training, or eliminating unnecessary training. There are opportunities to contract out training (22.13 and 22.31).

22.3 The Canadian Armed Forces must provide language training to large numbers of candidates, in an environment where members change positions every two to five years. The official languages training program has cost $500 million, including student's salaries, since 1980. We found that there is a need to redefine the number of bilingual positions and linguistic requirements needed to fill them, as a basis for determining language training goals. Language training could be made more productive by screening students on the basis of their ability to learn, and by posting graduates to jobs where they will use their second language. Language proficiency levels for positions that are now established are not related to job requirements (22.32 and 22.57).

22.4 Professional development programs need to be strengthened. Military colleges are costly, and their enrolment has not been based on the needs of the Canadian Forces. The Department estimates that its requirements could be met with two colleges rather than three. The Canadian Forces has not defined the education and training needed by senior and general officers (22.58 and 22.70).

22.5 The Department has improved the acquisition of training infrastructure as part of major weapons system acquisitions. We did, however, identify some problems in the projects we examined. There is a shortfall in the training infrastructure that has resulted in operational deficiencies and in a significant backlog of projects to replace training equipment (22.71 and 22.77).

Table of Contents

Paragraph

Background 22.6

Previous Audit Activity 22.10

Audit Scope 22.11

Observations and Recommendations

- **Individual Training Could Be More Efficient** 22.13
  - Longer-range planning is needed (22.13)
  - Opportunities exist to train more efficiently (22.18)
  - External sources of training should be considered (22.23)
- **The Official Language Training Program Needs Improvement** 22.32
  - Policies and plans require improvement (22.34)
  - The Military Second Language Training Program (MSLTP) has a number of economy and efficiency difficulties (22.41)
  - Bilingual ability and the promotion process (22.47)
  - Posting processes need to make better use of language skills (22.51)
  - Summary (22.54)
- **Professional Development Programs Need to Be Strengthened** 22.58
  - Commissioning plans could be made more cost-effective (22.59)
  - Senior officer development requirements have not been defined (22.64)
- **Training Equipment Has Been Improved, but Further Improvement Is Required** 22.71
- **Management Information Systems Are not Adequate** 22.78

Department of National Defence

Human Resource Management
Training and Education

Background

22.6 An extensive network of schools, colleges, and specialized training facilities provides the Canadian Forces with the training and education its personnel require in peacetime. In wartime, this same network must be able to supply large numbers of adequately trained individuals on a sustained basis to replace casualties and to support expansion. The three major components of the training and education system of the Canadian Forces are described below.

22.7 The Individual Training System. The Canadian Forces Individual Training System comprises the majority of the armed services' training resources. A network of 123 training establishments and schools is operated by Maritime Command, Mobile Command, Air Command and the Canadian Forces Training System (CFTS), a centralized organization which provides training for all occupations that are found in more than one service environment. The Individual Training System delivers about 2.3 million training days each year to Regular Force members and costs about $500 million annually to operate.

22.8 The Officer Professional Development System. The Officer Professional Development System is a second network, comprising the three Canadian Military Colleges which provide university education; the Canadian Forces Staff School; the Canadian Land Forces Staff College; the Canadian Forces Command and Staff College; and the National Defence College. Together these institutions provide professional education from the level of junior officer to that of general officer. In addition, the Canadian Forces has a common Officer Professional Development Program based on self-study and examinations, and each environmental command (Maritime, Mobile, and Air) has its own program of professional knowledge examinations. The entire system provides professional education to the officer corps of 18,000 individuals.

22.9 Collective Training. The third element of the training structure is collective training, which may involve groups ranging from a few individuals to major exercises of up to 20,000 people in several commands, and even allied forces. They may be paper or computer-driven "command post" exercises involving a few commanders and their staffs, or "live" exercises requiring the deployment of troops in the field or ships at sea.

Previous Audit Activity

22.10 Our 1984 Report addressed aspects of individual and collective training and personnel mobilization. We noted deficiencies that hindered training and reduced the general efficiency of the training system. We also noted deficiencies in the processes used to plan, control and evaluate operational exercises.

Audit Scope

22.11 Chapter 20 describes how the force and occupational structures define the skills and knowledge that members of the Canadian Forces must have. Here we focus on the systems and procedures used to plan, deliver and assess the training and development needed to provide them.

22.12 Our audit addressed four major questions: whether key elements of training are economic and efficient; whether the official languages training program is economic and efficient; whether there is an adequate

Canadian Forces School of Administration and Logistics

Facilities have been improved, but much remains to be done (see paragraph 22.5).

infrastructure to meet peacetime and wartime needs; and whether management's systems are adequate to plan, monitor and control training.

Observations and Recommendations

Individual Training Could Be More Efficient

Longer-range planning is needed

22.13 The number of individuals who must be trained by the Canadian Forces is determined by how the occupational structure is designed and how people flow through it. Effective planning is essential, to avoid overburdening or underusing school facilities and producing more or fewer trained personnel than are needed.

22.14 We compared the number of people trained against the Force's requirements, over the last ten years. In general, the system had responded adequately, training the needed number of people.

22.15 We found, however, that many staff who have the authority to influence training production requirements are unaware of the effects their decisions have on the training system. This has resulted in surpluses and shortages of personnel, triggering emergency training action; and in overcrowded or underutilized schools. One major impediment to a smooth flow of training at the basic occupation training schools was the application of person-year control, which placed arbitrary constraints on the use of the schools. This was recognized by the Department and ended in June 1989.

22.16 We found that the method used to determine production requirements for basic occupations tends to be based on a short-term rather than a long-term view. Targets are set for only the coming year, with little effort made to forecast beyond that point. Because it may take from several months to five years to train an individual for even the most junior position, it is important that forecasts for at least five fiscal years be as accurate as possible.

22.17 The Department should improve its planning for training requirements and production by extending its planning horizon and by ensuring that administrative practices do not arbitrarily change the targets to which the training system responds. In the long run, the Department's training requirements should be developed from a stable, long-term force structure plan.

***Department's response**: It is agreed that training requirements should be developed from stable long-term force structures. However, until the latter are in place, this is not possible. In the meantime a revision is being implemented to change tasking from a one-year fix and an assumed steady state, to a one-year fix and the next five years based on the best available information. This will enable timely adjustments to be made to taskings as better information becomes available.*

Opportunities exist to train more efficiently

22.18 Individual training is provided by all three major environmental commands, and by the Canadian Forces Training System (CFTS). CFTS provides 50 percent of the 2.3 million training days delivered each year by the Canadian Forces, offering 470 courses to about 28,000 trainees. We limited our audit tests to basic and advanced vocational training delivered by CFTS.

22.19 Individual training requirements are determined on the basis of an occupational analysis of jobs, and training is designed on the assumption that individuals will use their newly acquired skills in their current or next jobs. Both these factors are beyond the control of the staff who manage training. In fact, we found that the assumptions that jobs are uniform and predictable do not reflect the reality of the Canadian Forces Training System. A contributing factor to the lack of efficiency we observed is the requirement that CFTS train members of all environments to a common, multi-environment standard.

22.20 To determine the degree to which CFTS training is appropriate to the actual needs of the Canadian Forces, we surveyed the graduates of a representative sample of 15 courses, and their supervisors. We asked if they were performing the tasks for which they had been trained and if they believed that the training had prepared them to perform tasks

Individual Training

The cost-effectiveness of training needs to be improved (see paragraph 22.18).

which were part of their current jobs. Based on their responses, about 62 percent of the individual training delivered by CFTS does not meet these two requirements, either because the graduates were not required to perform the tasks in their job assignments (35 percent), or because they had already learned to perform the tasks before receiving training (27 percent). The annual value of this portion of CFTS basic and advanced training time is estimated to be $165 million, including about $80 million in salaries paid to personnel while in training.

We asked if students were performing the tasks for which they had been trained and if they believed that the training had prepared them to perform tasks which were part of their current jobs. Their responses indicate that there are significant opportunities for cost savings within the CFTS.

22.21 The results of the survey indicated that there are opportunities to improve the cost-effectiveness of training, especially within the CFTS areas examined, such as using more pre-course screening to determine whether a candidate needs the training. Other options could include conducting certification tests before requiring attendance at courses; more training on the job; developing alternative delivery modes such as computer-assisted and self-paced learning at the job site; determining job requirements more quickly and accurately; and improved and more frequent validation of course content to ensure that it meets job requirements. Several of these responses are already being considered by the Department through its "Alternative Approaches to Training and Education Study."

22.22 The Department should review its processes for planning and delivering individual training, to ensure that the system is efficient and responsive to the needs of users. It should also ensure that the relevance of course content is regularly reviewed.

***Department's response**: A most effective way to determine the efficiency and relevance of training is through the validation phase of the CFITS. The Department recently put renewed emphasis on this phase of the CFITS by requiring all Commands to report the number of Validation surveys completed, the changes made as a result, and to state their plans for future validations. NDHQ/DIT will monitor validation activity in order to gauge the effectiveness of training to satisfy user requirements.*

The effectiveness and efficiency of the conduct of the training phase of the CFITS is being addressed through the judicious introduction of training technology: i.e., computer-assisted learning, interactive video disk, and distance learning techniques. In addition, the Department is reviewing the procedures that determine which options will best meet training requirements.

In conclusion, the Canadian Forces trains personnel for a variety of career employments within a particular occupation in order to meet its validated operational requirements. This can result in some overtraining but ultimately provides the necessary operational flexibility.

External sources of training should be considered

22.23 The Canadian Forces employs 68,000 individuals as non-commissioned members (NCMs). One way the Forces could more economically acquire the skills it needs would be to recruit individuals at entry level who have some of those skills. However, the Canadian Forces is able to recruit few vocational college graduates because its career structure is unattractive to them. This is due largely to the lack of Canadian Forces equivalencies for vocational school diplomas, and the resulting requirement that diploma holders start at the same level in their trade as those leaving high school. The existing Skilled Trades Entry Plan (STEP) offers pay incentives and time credit for promotion to corporal, but from 1986 to 1988 the Department recruited only 57 individuals under this program.

22.24 Another possible way of improving economy would be to buy outside training services instead of delivering them internally. The Department now limits its use of the national community college system to the Marine Engineering Technician Training Plan (METTP), which is delivered through two community colleges and which graduates 40 to 50 individuals each year. Departmental studies indicate that the community college system has a high potential to meet Forces requirements. We estimate that it costs $71,923 to train an individual through METTP, compared to $265,352 (1986/87 dollars) at the Canadian Forces Fleet School.

22.25 As part of our audit we reviewed a sample of individual training courses, to determine the extent to which community colleges could meet Canadian Forces training requirements, and to assess the comparability of training times and costs between the Canadian Forces and the civilian sector.

22.26 Community colleges we contacted indicated they could meet the majority of training requirements we had examined. However, we recognize that previous studies by the Department have indicated that detailed analysis is required before external alternatives can be used. There are military aspects of even the most comparable courses that civilian colleges could not teach. We found in our sample that the amount of time the Canadian Forces takes to deliver courses was comparable to the estimates provided by the civilian colleges.

22.27 Because military courses are not exactly the same as those offered by community colleges, we found it difficult to compare costs directly. But we found that, as in the METTP example, costs were usually higher in the Canadian Forces than in the civilian sector.

22.28 We recognize that several other factors must be considered before training is contracted out. There is always a military dimension relating to values which must be taken into account, and this has been done in the METTP program. Costs already sunk into existing training facilities must also be considered. These factors and trade-offs complicate any systematic effort to minimize the cost of training and still meet the needs of the Canadian Forces.

22.29 There appears, however, to be some opportunity for the Department to increase economy in training by reducing internal costs and by making greater use of existing capabilities in the community college system.

22.30 The Department should compare costs between its school system and civilian colleges and institutes of technology. It should identify where Canadian Forces schools cost more, and should use this information to reduce its costs unless effectiveness would be diminished.

22.31 Where departmental costs would still exceed those of the civilian sector, the Department should consider using the community college system to meet incremental requirements.

***Department's response**: More extensive use should be made of the community college system to achieve economies. Cost comparison and option analysis requirements will be developed and used in the CFITS management process to ensure that the most efficient and effective method of meeting validated training requirements is selected.*

The Official Language Training Program Needs Improvement

22.32 The Canadian Forces operates its own official languages training program, separate from that of the Public Service Commission of Canada. Military language training has cost the Department about $500 million, including students' salaries, since 1980. We examined the policies and plans on which official languages training requirements are based, the system used to deliver language training, and the extent to which acquired language skills are used.

22.33 The conclusions of our audit, and our recommendations, have been discussed with the Office of the Commissioner of Official Languages, which is responsible for ensuring compliance with the spirit and intent of the Official Languages Act in the administration of federal institutions.

Policies and plans require improvement

22.34 To be efficient and effective, official languages training programs must be based on clear policies, and on measurable goals in terms of the numbers of positions designated as bilingual at various levels of proficiency. These in turn should be translated into training plans based on accurate data, which match objectives to available resources. We found that improvements could be made in these areas.

22.35 The language training requirements of the Canadian Forces are based on two fundamental policies. The first is established in law by the Official Languages Act, which entitles the public to receive services from the federal government in either official language, where warranted, and federal employees to work in the language of their choice in designated regions. The Official Languages Act also states that, although federal institutions are to be bilingual in nature, federal employees have the right to a career in the official language of their choice.

22.36 The second policy has been established by the Department and is known as the "bilingual officer corps." This policy is intended to ensure that the officer corps is able to lead and communicate effectively in both official languages. To achieve this goal, the Canadian Forces decided in 1988 that by 1997 officers normally must attain the functional level of bilingualism to be promoted to the rank of lieutenant-colonel.

Official Languages training programs must be based on clear policies and measurable goals. We found that improvements could be made in these areas.

22.37 We found significant deficiencies in the manner in which language skill requirements needed to support the Official Languages Act were identified. A 1987 review of positions to assess their linguistic requirements was conducted without adequate guidance or quality control measures, making the results unreliable. For instance, the number of positions designated as bilingual as a result of this review increased by 25 percent for no apparent reason. Linguistic levels for bilingual positions appear to have been established arbitrarily. Departmental officials informed us that a further review of bilingual positions is under way, with completion forecast by 1992.

22.38 We also found deficiencies in the approaches used to assess current language skills of members of the Canadian Forces. This information is essential to planning language training, since it is used to measure how closely incumbent personnel meet the requirements of their positions. In 1988 the linguistic skills of 14,500 individuals were assessed. The Department could not demonstrate the validity of the tests it used. Passing scores were calibrated in an arbitrary manner so that the percentage of failures was equal among anglophones and francophones, rather than ensuring that a proficiency standard was met. Moreover, test results of 6,120 individuals, though incomplete because a writing test was not available during the 1988 assessment, were included in the departmental data base among

Official Language Training, St. Jean, Quebec

The Department has not adequately defined its language training requirements (see paragraph 22.37).

those designated as fully bilingual. This practice could make it difficult to determine the level of progress made by the official languages program.

22.39 The other major policy area, the bilingual officer corps, also raises concern. Unlike the Public Service, the Canadian Forces appoints officers to ranks rather than to positions. Although the Canadian Forces, as required by Treasury Board, has developed policies that recognize the mobility of Canadian Forces personnel, it has not been diligent enough in implementing these policies, and Treasury Board has not effectively ensured compliance with the requirement. The bilingual officer corps policy was not based on objectively established language requirements. Instead, senior officials informed us, the Canadian Forces normally requires that members at the lieutenant-colonel rank be bilingual for operational reasons. However, the need for this has never been documented.

22.40 In 1990 the Department and the Forces approved a new official languages plan. Based on current levels of expenditure, the Department estimates that the new plan will require approximately $500 million in direct expenditure plus $900 million in student salaries over the next fifteen years, to achieve its objectives for language training. At current production levels, this level of expenditure will meet only about 50 percent of the Department's requirement. Departmental officials told us that new programs were expected to increase the productivity of the program. They could not, however, forecast by how much.

The Military Second Language Training Program (MSLTP) has a number of economy and efficiency difficulties

22.41 The objectives of the language training program are to develop a bilingual officer corps and to have enough bilingual non-commissioned members to fill positions designated as bilingual. There is now a shortfall of 19,300 bilingual anglophones which, at the current rate of training, will take 40 years to eliminate.

22.42 The primary goal of the Canadian Forces' language program is to train individuals to the "functional" level of proficiency, which usually takes 1,250 hours of training. We found that this level was inadequate for officers who have supervisory duties. In addition, because the functional level covers a wide range of language skills, the Forces has no basis for matching more highly qualified individuals to positions requiring higher levels of skill within the functional category. The Canadian Forces designates positions requiring ability above the functional level as "integral", although it does not offer training to achieve this higher level.

22.43 Although the Canadian Forces currently suffers from an acute shortage of bilingual anglophones, we note that the language training system is designed to offer a low level of training to many, rather than to train fewer individuals at the skill levels required to perform their tasks effectively. For instance, all anglophone officers are provided at entry with two-thirds of the training required to achieve the functional level. Whether they complete the training requirement depends on the personal initiative of individuals and on whether the additional training is available. Departmental officials stated that courses were available at 38 of 43 bases and that about 2,600 individuals had enrolled in courses for 1989/90. However, 75 percent of this training was targeted at beginners and not toward qualifying those already partially trained.

22.44 Between 1980 and 1989, only the Continuous French Course was designed to train to the functional level. For the 3,500 members who attended the course, the success rate was 68 percent for officers and 33 percent for non-commissioned members. Prior to 1988 the Department did not insist on any prerequisite level of knowledge for this course, resulting in a high failure rate for non-commissioned members. In 1988 a prerequisite was established, but individuals continued to be sent on the course who had not met the prerequisite. To accommodate their attendance, "success" was redefined as making a sufficient degree of progress rather than as achieving a specified level of performance. The success rate consequently increased to 61 percent. Departmental officials told us that performance at the functional level will be reinstated as the standard for success in 1991, at which time individuals who do not qualify will no longer be sent on the course.

22.45 The Canadian Forces schedules language training soon after an individual joins the armed services. We found the timing of language training was unrelated to when the second language could reasonably be expected to be used on the job. This results in skills that go unused and offers little motivation for trainees to succeed. The average failure rate in the Basic French Course is about 50 percent. The course used 50 percent of the resources allocated to French language training in 1988/89 and about 60 percent in 1989/90. Given that 30 percent of all members leave the Forces during their first five years of service, we question the cost-effectiveness of enrolling recruits in the Basic French Course so soon after entering the service.

22.46 Canadian Forces officials told us that they have taken or plan to take measures to address many of the problems we identified. In July 1989 the Forces increased the length of some courses and instituted a prerequisite level of knowledge for the Continuous French Course, in an effort to improve the success rate. The number of students enrolled in the Continuous French Course has increased and a "De-centralized Military Second Language Training Program" was initiated, to provide more opportunity for individuals to undertake or pursue language training. Canadian Forces officials stated that these initiatives would increase language training capacity

Bilingual ability and the promotion process

22.47 Language training provides job skills which form part of the base against which individuals are evaluated for promotion. We reviewed how the Canadian Forces employs the language element in its promotion system.

22.48 We found that the Treasury Board has not provided advice and general direction on how to integrate the language skill requirements of various ranks and occupations into the merit assessment processes for institutions such as the Canadian Forces, which promote to rank rather than to a specific position. At present, merit points are awarded to individuals for second language capability and for demonstrated motivation to learn.

22.49 Although merit boards have been given a general briefing on rating language capability, there is a need for clear guidelines to provide direction to the boards.

22.50 The Canadian Forces' promotion policies, including the policy of a bilingual officer corps described earlier, have greatly increased the demand for language training, although there is no assurance that individuals trained will be needed in bilingual positions in the foreseeable future.

Posting processes need to make better use of language skills

22.51 Many of the Canadian Forces' goals for human resource management -- such as filling operational positions which have demanding working conditions, and meeting the developmental and personal needs of members -- are met through rotational postings. This means that, unlike the Public Service where the rate of mobility is relatively low, DND needs a system of posting that makes effective use of the skills developed through its language training program. We found that currently this does not exist. Language training is not linked to bilingual manning priorities, which makes bilingual personnel only randomly available in appropriate trades and ranks. Over the last three years only about 58 percent of graduates of the Continuous French Course have been posted to bilingual positions. There is no manning policy for other language courses, which generate 70 percent of total French language training.

22.52 Moreover, in 1989 only 28 percent of bilingual positions were filled by bilingual people and only 34 percent of bilingual people were in bilingual positions. In 1989 the Canadian Forces increased the number of bilingual positions filled, by four percent, but most of these were positions whose requirement for bilingualism had been designated by the Department as low priority.

22.53 As we have noted, the Department's new 15-year official languages plan will cost about $500 million, excluding students' salaries, capital, and operations and maintenance costs for training in a second language. However, there is no plan to integrate the training of individuals with their likely employment, to ensure that the training is used and that qualified members are employed appropriately. Trade-offs between operational readiness, official languages objectives, and costs have not been addressed.

Summary

22.54 Official languages requirements and inventories are not entirely accurate. Programs generally train large numbers of individuals to too low a level of proficiency, and once training is delivered there is no effective system or process for posting individuals to jobs where skills will be used or enhanced. We also identified deficiencies in testing.

22.55 Treasury Board officials have indicated that they intend to provide the Canadian Forces with advice and general direction to ensure that they develop clear official languages policies and guidelines consistent with military requirements.

22.56 **The Department and the Canadian Forces should redefine the goals for their official languages program, in terms of the number of bilingual positions and the proficiency levels needed. These should be based on clearly defined operational requirements and should be attainable.**

22.57 **The efficiency and economy of official languages training should be increased by improving the timing of training delivery; by ensuring that tests are valid, reliable and correctly calibrated; and by planning training according to bilingual manning priorities and adjusting the posting process to ensure that training is used.**

***Department's response**: The Canadian Forces will improve the efficiency and economy of its official languages training by reviewing the identification of its linguistic needs and monitoring the posting process to ensure that training is properly used. The languages test will also be reviewed to confirm its validity.*

Based on an extensive internal review of the CF language training policies and practices, significant changes to the MSLTP were introduced in July 1989. Underlying the importance of language training, course standards and selection criteria were established for each main course. One standard curriculum was established to ensure structured and progressive training. While still too early to assess the full effect of these changes, two courses for junior officers completed in the spring have had dramatically higher success rates: the Canadian Military Colleges went from a 74 to a 99 percent pass rate, and the Basic French Course rose from under 50 percent to 76 percent success. In addition to these qualitative reforms, all centrally conducted courses have had increased student populations and a new course offering training on all bases has had 2,600 participants since September 1989.

The Canadian Forces are confident that the corrective measures and initiatives taken, or in progress, address the concerns raised in this chapter. The DND/CF in concert with the Secretariat of the TB are currently developing a Letter of Understanding to set clear and measurable objectives for their official languages program which will permit, among many other aspects, refinement of attainable language training goals.

Professional Development Programs Need to Be Strengthened

22.58 We reviewed two aspects of professional development in the Canadian Forces: commissioning plans, through which individuals are brought into the officer corps; and the development of senior officers.

Commissioning plans could be made more cost-effective

22.59 The Canadian Forces produces officers through a variety of commissioning plans. Some of these involve subsidized university training at a military college or a civilian university; others recruit people leaving high school, or college and university graduates, directly into the Forces. The plan considered to be most important and effective is the Regular Officer Training Plan (ROTP), which is the primary source of all degree-holding and career General Service Officers (64 and 44 percent respectively). This plan uses the majority of spaces available at the military colleges, and also educates several hundred officers at civilian universities each year.

22.60 Our review indicated that the capacity of the most costly element of the various commissioning plans -- the military colleges -- has been fixed at 1,520 students, based on the existing plant rather than on the needs of the Canadian Forces. In 1989, a study by the Department concluded that the current production level for officers could, with some initial capital investment, be met with two colleges instead of three. The Department estimated that $7.7 million could be saved annually, along with a one-time saving of $35 million in capital expenditures, if one college were converted to other uses. However, this was not done so that the regionally representative nature of the college system could be maintained.

22.61 We also found that the military colleges are costly. The Department estimates that military colleges cost $47,700 per student per year, while ROTP candidates at civilian universities cost the Department $18,000 per student per year. About 30 percent of this difference can be accounted for by provincial subsidies to civilian universities and by program differences, such as drill, compulsory physical education and official languages training. The rest is caused by surplus capacity at the military colleges and by factors such as a staff to student ratio two and one-half times higher than the Canadian average.

22.62 The relative cost-effectiveness of the various commissioning plans has not been examined from the standpoint of such factors as personnel retention and career progression. No individual or staff unit appeared to be responsible for doing so. In the face of changing societal trends, there appears to be no active investigation of new production plans or of major modifications to those long established.

22.63 The Department should periodically evaluate the efficiency and effectiveness of its commissioning plans.

***Department's response**: The Department has recently expended considerable effort assessing the efficiency of the most expensive component of the ROTP, the military college program, and looking for a means of improving cost efficiency.*

The implementation of efficiency-improving measures has, to date, been delayed by the lack of front-end capital needed to realize necessary infrastructure adjustments, consideration of regional balance, and a declining pool of applicants. The problem is recognized and efforts to achieve improvements will continue.

The point with respect to a lack of regular evaluation of the relative effectiveness of various programs is acknowledged and the necessary data-collecting mechanisms to support such evaluations will be developed.

Senior officer development requirements have not been defined

22.64 A critical factor in the effectiveness of the Canadian Forces in war or other major crisis would be the operational competency of its senior leadership -- officers at the rank of lieutenant-colonel and above. These officers would be responsible for making crucial battlefield decisions and for providing advice on which critical political decisions would be based. We therefore examined how the Canadian Forces develops the competency of senior and general officers.

Royal Military College, Kingston, Ontario

There is surplus capacity in the Canadian Military College system (see paragraph 22.61).

22.65 Operational command skills are developed and enhanced through a planned sequence of training, employment experience and education. To this end, a formal Officer Professional Development System exists which, in part, provides officers with doctrinal and relevant general knowledge, principally at the two command and staff colleges. For a selected few, this knowledge is then practised and further developed in the field, or at sea, through command assignments selected by the Department's career management division.

22.66 The Canadian Forces has informally adopted a "generalist" career model, which avoids specialization into command or staff. This approach, combined with the limited number of operational units, means that officers in operational classifications receive, at best, a single, short command tour averaging less than two years, at each rank level. Senior Canadian officers and several NATO allies believe that command experience at lower levels does not automatically provide an adequate background for effective senior command. Aside from providing minimal practical developmental experience, this "churning" or frequent change of leadership has been found by the Department to have a serious negative impact on morale.

22.67 Lack of experience can be compensated for, to some extent, by high-quality education and training. The Canadian Forces, however, does not provide formal, in-service, operationally oriented education or training to officers above the rank of major.

22.68 Moreover, although most senior and general officers are involved in the policy direction and resource management of a large department, and contribute to the formulation of national security policy, the Canadian Forces has not defined the education and training they need to do this effectively. An organized program of developmental activities is only now in its early stages.

22.69 The Canadian Forces has long recognized the need for a comprehensive program to develop senior and general officers. Some progress has recently been made, but much more remains to be done.

22.70 The Canadian Forces should analyse the operational and managerial demands faced by senior and general officers to determine what levels of skills, knowledge and experience they need and how many officers are needed at each level. The career management and professional development systems should then be revised accordingly.

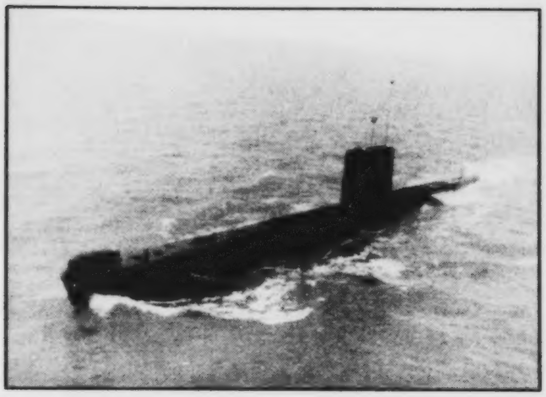
Department's response: *The need for an analysis of the senior and general officers' roles, in both war and peace, is accepted and has been recognized in the Department. Such an analysis, which will provide a firm foundation on which to design a more effective and efficient professional development process, will be undertaken in due course.*

Training Equipment Has Been Improved, but Further Improvement Is Required

22.71 Combat effectiveness depends on the quality of equipment and the ability of the personnel who operate and maintain it. It is important, therefore, to match weapons and training infrastructure. Otherwise, the effectiveness of costly equipment will be limited by the operators' and maintenance personnel's skill and knowledge.

22.72 The Canadian Forces has placed a higher priority on acquiring operational weapon systems, such as ships and aircraft, than on supporting infrastructure. As a consequence, replacement plans are either unfunded or are implemented years after replacements are first needed. For example:

- Maritime Command has identified deficiencies since 1979 in training equipment for weapon systems, but replacement equipment will not arrive before the mid-1990s, which lowers combat effectiveness and readiness. In addition, according to a departmental study, failure to provide adequate training infrastructure has placed a



Oberon Class Submarine

Failure to provide training equipment has affected effectiveness and safety (see paragraph 22.72).

significant strain on the overall operational effectiveness and safety of the Submarine Squadron.

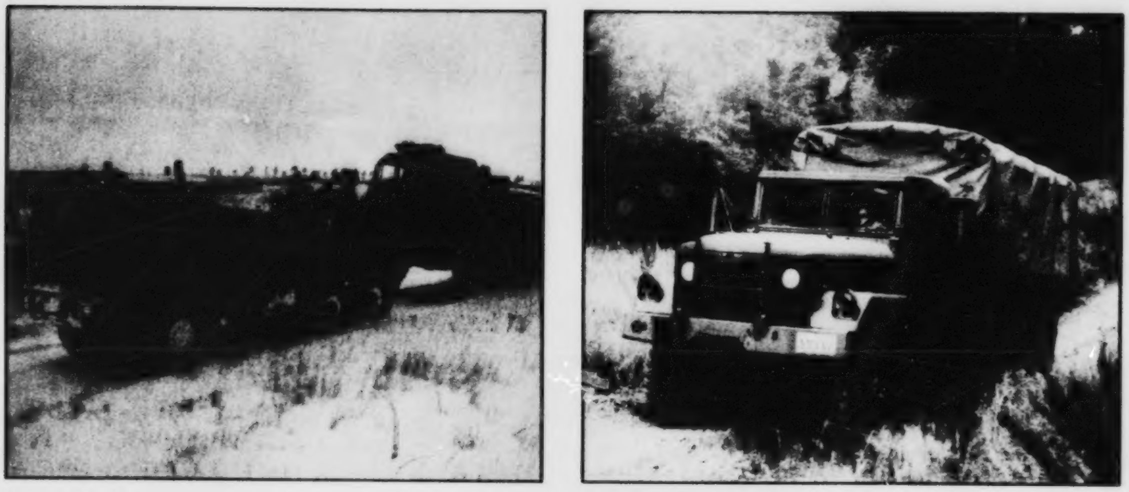
- Mobile Command estimates that $300 million is currently required for additional training infrastructure. A source of money to fund these requirements has not been identified.
- In the last five years alone, the Canadian Forces Training System has accumulated a $72 million backlog of facilities needing replacement.

Replacement plans are either unfunded or are replacing equipment years after needed.

22.73 A significant proportion of the Canadian Forces' training infrastructure is acquired in conjunction with major weapon systems. We reviewed the training component of eight current major Crown projects with a total value of $17 billion out of $40 billion in projects managed by National Defence, to determine whether training needs had been identified and planned for. We found that most had, for the projects we reviewed. If this practice is followed over the long run, it will help prevent the types of problems we have described.

22.74 We did identify cases where training may be affected, although not because of deficiencies in the training program. For example:

- The DDH 280 destroyer update (TRUMP) project required the contractor to remain responsible for the adequacy of training delivered by the project until the training had been "validated", or checked against actual work requirements. Other projects such as the North American Air Defence Modernization Project, the Low Level Air Defence Project and the TOW Under Armour Project had no such provisions, although the training delivered was checked against the contracted requirements. The lack of provisions to ensure contractor responsibility to completion of validation could result in the Department's having to correct deficiencies at its own expense.
- The Medium Land Vehicle Wheeled (truck) Project did not synchronize equipment delivery with training, which left 1,868 vehicles idle for 6 months and 179 cranes for 21 months. According to officials, the problem was the result of two factors. The first was that training packages could not be finalized until testing of the production vehicles was completed. The second was the Department's view that it would be more cost-effective for the contractor's assembly line to continue operating during the testing than to have it stop until testing was completed. A similar problem occurred with



Heavy Truck *Medium Truck*

Vehicles were idle because training was not synchronized with delivery (see paragraph 22.74).

the Heavy Logistic Vehicle Wheeled (heavy truck). The Department, however, did not analyse the option of closing the assembly line or slowing production in its planning of the projects and at the time of our audit was unable to say which option would have resulted in the lowest cost.

- The Canadian Patrol Frigate project did not require the contractor to provide training capacity for the first six ships that was adequate to compensate for personnel rotation, replacement and attrition. Were the result to be a shortfall of trained personnel, this would affect the operational capability of the ships. Nevertheless, the contractor is providing spare capacity on about two-thirds of CPF courses, which may make it possible to compensate for any shortfall or deficiency.

22.75 At present, contracts for capital projects do not always require contractors to deliver training to meet the needs of the Canadian Forces in a timely and appropriate manner.

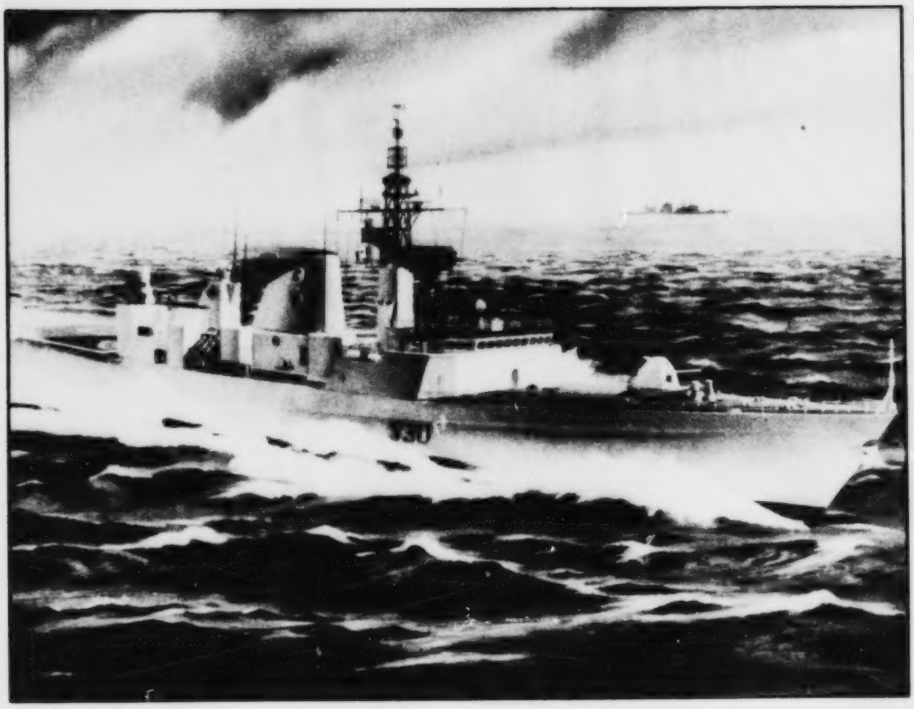
22.76 The Department of National Defence should ensure that contracts require that the type and quality of training provided has met or will meet departmental needs, before its final acceptance of the product.

22.77 The Department should increase efforts to synchronize training with delivery of equipment and should ensure that opportunity costs of non-productive equipment are considered during contract negotiation.

***Department's response**: It is standard procedure for the Department to identify training requirements associated with capital equipment purchases early in the acquisition process. The validation of contractor training has been, and will continue to be, conducted and strengthened by the Department to ensure the needs of the Department are met. Additional emphasis will be placed on the synchronization of training with equipment delivery through close liaison with the contractor involved with regard to delivery schedules.*

Management Information Systems Are not Adequate

22.78 Management information relating to the control of training is required for at least three primary purposes: monitoring the efficiency and economy of current training approaches; reporting on the overall level of training; and monitoring the ability of the training system to meet anticipated wartime requirements.



Canadian Patrol Frigate

Training needs analysis could have been improved (see paragraph 22.74).

22.79 As with the Department's human resource management system in general, information systems supporting the Canadian Forces Individual Training System tend to be outdated, and usually designed to meet peacetime requirements. Overall, there is a lack of accessible information and data-handling capability to regularly assess economy and efficiency, or to consider options for the timing and delivery of training. As we have noted, there is also a need for improved measures to assess the continued relevance of training courses, and to identify more efficient ways of meeting training needs in a system where individuals are frequently posted to positions that require a wide variety of skills. The Department's "Base Level Delegation of Authority and Accountability" trial, if carried out, may result in better cost data for some managers.

22.80 Department-wide feedback on the training system's effectiveness for wartime can be achieved through formal reporting and systematic analysis of the results of military exercises. In 1984 we observed that the existing reporting system provided only limited information. The Department has subsequently implemented a new Operational Readiness and Effectiveness System (ORES) which reports on, among other things, the global status of training in the Canadian Forces. The system cannot be fully implemented, however, until a valid force development plan is adopted, with a defined set of objectives against which existing states of readiness can be measured. In addition, this system will depend on personnel data bases that our examination indicated may not be reliable.

22.81 No major command post exercise has been held since BOLDSTEP 84. BOLDSTEP 88 was cancelled. Officials commented that the Department has not yet resolved major problems identified in BOLDSTEP 84, in areas such as personnel, materiel and financial administration, and that an additional exercise would thus have been unproductive. They noted that the Department intends to participate in a government-wide mobilization exercise in 1990.

23

Department of National Defence

Human Resource Management
Medical Support

Department of National Defence

Human Resource Management Medical Support

Main Points

23.1 A medical support system is a critical component of the Canadian Armed Forces (paragraphs 23.5 and 23.6).

23.2 The medical support system was not designed to meet wartime requirements. It has evolved to meet primarily peacetime needs. Current deficiencies call into question the Canadian Forces' ability to provide a complete and continuous system of medical support in time of war (23.21).

23.3 Compared with similar civilian hospitals, the use of military hospitals is low and the cost per patient-day high, in large part because military hospitals are staffed to meet levels that far exceed actual rates of occupancy (23.22 to 23.29).

23.4 The Department needs to determine the minimum level of medical resources that could be expanded to meet wartime needs. It should examine alternatives for improving efficiency, such as increased reliance on reservists, use of civilian hospitals for more specialized requirements and adjusting staff to correspond to numbers of patients (23.26 and 23.36).

Table of Contents

Paragraph

Background 23.5
- Medical Support - a critical component of personnel support (23.5)
- Components of the medical support system (23.10)
- Cost of the medical support system (23.15)
- Previous audit of medical supply system (23.16)

Audit Scope 23.17

Observations and Recommendations

Wartime Readiness 23.21

Peacetime Efficiency 23.22
- Occupancy of military hospitals is low and operating costs are comparatively high (23.22)

The Need for the Range of Services Now Provided by the Canadian Forces Medical System 23.30
- Unique military requirements exist (23.32)
- Quick access to hospital care (23.34)
- Maintaining a cadre of military medical personnel (23.35)
- Hospitals' function in training medical personnel (23.40)

Exhibits

23.1 Comparison of Total Operating Cost per Equivalent Patient-Day-1987/88

Department of National Defence

Human Resource Management Medical Support

Background

Medical Support - a critical component of personnel support

23.5 The mission of the Canadian Forces Medical Services (CFMS) is "to maintain Canadian Forces personnel medically fit for duty and to conserve personnel in support of Canadian Forces operations." A military medical service is critical to maintaining the morale of service personnel; their willingness to fight will be influenced by their general state of health and by their confidence in the medical support system's ability to provide prompt evacuation and treatment of casualties.

23.6 In times of war, military medical personnel must operate in a hostile environment, delivering care to large numbers of critically injured patients, often without sophisticated medical equipment. Personnel must be trained to function in these conditions. They must understand the concepts and organization of wartime medical services, as well as the operation of aeromedical evacuation and patient regulating systems.

23.7 In peacetime, along with normal medical services the military needs medical disciplines not frequently encountered in civilian life, such as aerospace and diving medicine.

23.8 **Legislative basis.** The federal government's legal responsibility for medical care to Canadian Forces members is based on the Constitution Act. The Canada Health Act and provincial health insurance acts exclude members of the CF from provincial health plans. Departmental regulations state that medical care may be provided by CF medical facilities or, when authorized by CF authorities, by civilian medical facilities. In fact, 15 percent of CF personnel hospital admissions are to civilian facilities.

23.9 This chapter should be read in conjunction with Chapter 20, which discusses the entire human resource management (HRM) system in the Department of National Defence and includes a description of the medical support system's ability to meet wartime requirements.

Components of the medical support system

23.10 DND possesses a network of both stationary and mobile medical services. Supporting the army's division and two brigade groups are:

- 19 unit medical sections that provide first-level support to the various battalions and regiments;
- one medical battalion and two field ambulance units which provide second-level support to the army division and the brigade groups respectively; and
- a forward surgical hospital which could provide limited third-level support.

23.11 In the navy each destroyer and frigate has a sick bay, staffed in peacetime by a medical assistant. A medical officer would be added in wartime. Each submarine has a medical assistant as part of its crew. Each supply ship has a sick bay with capability to perform emergency surgery. The sick bay is normally staffed with a medical officer and a medical assistant; however, when the situation dictates, a surgical team may be placed on board.

Knowing that a reliable system of medical support is in place is critical to the morale of service personnel (see paragraph 23.5).

23.12 Medical support to the air force is provided by a base hospital or clinic. In addition, operational squadrons normally have integral medical elements to support them.

23.13 Hospitals and medical equipment depots provide support to all commands on a geographic basis. In addition to its regional medical support function, the National Defence Medical Centre acts as the national medical referral facility for CF patients.

The CFMS has 52 small base hospitals and clinics, six regional hospitals, the National Defence Medical Centre and six medical equipment depots.

23.14 The CF has far more stationary than mobile medical facilities. They range from base medical clinics, providing only basic outpatient care, to the National Defence Medical Centre which is responsible for the provision of a full range of medical services. The CFMS has 52 small base hospitals and clinics, six regional hospitals, the National Defence Medical Centre and six medical equipment depots.

Cost of the medical support system

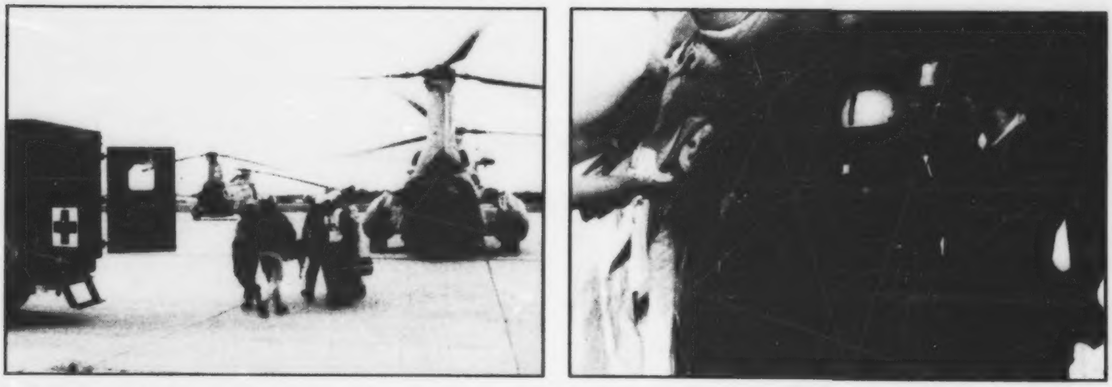
23.15 We obtained cost estimates for the 2,800 military and 650 civilian medical personnel working in CFMS facilities; for Surgeon General-controlled operations and maintenance (O&M) expenditures; and for O&M expenditures for the four largest military hospitals and five medical equipment depots in Canada. These costs totalled approximately $233 million. Additional costs would include the O&M expenditures for the remaining medical facilities in Canada and overseas -- three CF hospitals, 25 base hospitals and 27 medical clinics. In 1987/88, two of the four hospitals that we examined generated approximately $9.7 million in revenues by treating civilian patients.

Previous audit of medical supply system

23.16 Our 1988 Report contained the results of our audit of the Department's medical supply system, which is part of the medical support system. We found that the existing system of six stationary medical equipment depots catered primarily to peacetime medical needs and would not be capable of supporting forces in wartime.

Audit Scope

23.17 Our audit addressed two fundamental questions: is the current medical support system adequately designed for sustained



A military medical support system must maintain a core of military personnel trained in unique areas such as aeromedical evacuation (see paragraph 23.6).

conflict, and is the system generally efficient in peacetime?

23.18 We based our examination on three fundamental prerequisites to operational readiness:

- the existence of a force structure specifying the personnel, equipment and facilities that would be required in war;
- the specification of the people, equipment and facilities needed in peacetime to provide a basis for expanding to a wartime structure; and
- plans to indicate how the transition would be made from peace to war.

23.19 Our examination of efficiency focussed on the four largest DND medical care facilities in Canada -- the National Defence Medical Centre in Ottawa, and the Canadian Forces Hospitals in Halifax, Valcartier and Cold Lake. Our intent was to assess the efficiency of peacetime medical services, after considering any defined wartime requirements. For each of the four hospitals, we examined workload statistics and estimated the total annual operating costs for 1987/88. We then compared average operating costs per patient-day and other workload indicators for each CF hospital, with the averages for similar civilian hospitals.

23.20 We did not examine any CFMS activities in preventive health care or social work, nor did we attempt to assess the quality of care the CFMS provides.

Observations and Recommendations

Wartime Readiness

23.21 As we note in the first chapter on HRM in the Department, the medical support system was not designed to meet wartime requirements; it has evolved to meet primarily peacetime needs. Several of the Department's own documents have identified deficiencies that call into question the CF's ability to provide a complete and continuous system of medical support in wartime.

Several of the Department's own documents have identified deficiencies that call into question the CF's ability to provide a complete and continuous system of medical support.

Peacetime Efficiency

Occupancy of military hospitals is low and operating costs are comparatively high

23.22 We compared the operating costs of DND's four largest hospitals in Canada to civilian hospitals of similar size in the same provinces. We found that total operating costs per patient-day for military hospitals, after adjusting for different outpatient workloads, were significantly higher than the averages for civilian hospitals.

23.23 The lower occupancy rates of military hospitals may be a significant factor in these differences. Staff levels are based on a given number of beds, but historically the occupancy rates are much lower. For example, the hospital in Halifax is staffed to operate 99 beds, but since 1985 the average daily occupancy rate has been less than 35 percent. Occupancy rates at the three CF hospitals we did not examine also have been typically low. The 1987/88 occupancy rates for CFH Oromocto, CFH Europe and CFH Esquimalt were 8 percent, 35 percent and 48 percent respectively.

23.24 DND officials suggested that another factor may be the range of costly capabilities maintained in the CF system, which normally would not be maintained in public facilities of the same size.

23.25 Exhibit 23.1 shows the occupancy and cost comparisons between the four CF hospitals we analysed and civilian hospitals of similar size. We have estimated that the costs were $27.6 million (or 86 percent) higher than they would have been in civilian hospitals of similar size. This does not mean, however, that the Department could save this amount by purchasing the needed care from provincial hospitals. In most cases, the costs of purchasing care from provincial hospitals is higher than the DND cost per patient-day.

23.26 What the figures do indicate, however, is that there is an opportunity to reduce costs in

Exhibit 23.1

COMPARISON OF TOTAL OPERATING COST PER EQUIVALENT PATIENT-DAY 1987/88

CF Hospital	Average Daily Occupancy	Equivalent Patient-Days	Cost Per Equivalent Patient-Day	Provincial Comparison Group Cost Per Equivalent Patient-Day	Increase
NDMC (244 Beds)	76%	77,211	$472	$286	65%
CFH Halifax (99 Beds)	32%	27,341	$431	$173	149%
CFH Valcartier (56 Beds)	33%	14,369	$461	$183	152%
CFH Cold Lake (45 Beds)	23%	13,815	$352	$192	83%

The four largest military hospitals in Canada - National Defence Medical Centre (top left). CF Hospital, Halifax (top right), CF Hospital Val Cartier (bottom left), and CF Hospital Cold Lake (bottom right). The cost of operating them is considerably higher than for comparable civilian hospitals (see paragraph 23.25).

the DND system. Options that could be considered include basing the level of permanent staff on a percentage of peak demand, and using part-time or contract staff to satisfy peak periods; and relying on provincial hospitals for specialized capabilities that it is inefficient for the DND system to maintain, with its lower patient volumes.

23.27 The efficiency of NDMC is greater than that of the other military hospitals because it provides care to a significant number of Department of Veterans Affairs long-term care patients. NDMC patients also include members of the RCMP, members of Parliament, and senior civil servants. In fact, 61 percent of NDMC's 1987/88 patient days were for non-CF patients. Although NDMC's facilities are used more, certain areas of activity such as long-term care, oncology and cardiology contribute very little toward developing skills that would be required in wartime. It is recognized that these services must be made available to CF personnel in peacetime; however, there is a need to determine whether they could be obtained more economically at local civilian hospitals.

23.28 DND officials cited a number of reasons for the comparatively higher operating costs of military hospitals, apart from their lower rates of use. These include:

- the labour-intensive nature of military medical assessments;

- the posting cycle of military personnel, which results in higher staff turnover than in civilian hospitals;
- the periodic absence of hospital staff who attend courses, and operational activities such as UN assignments and formation exercises;
- the loaning of hospital staff to CF bases where there is a temporary shortage of medical personnel; and
- higher salaries and benefits paid to military and federal public service employees.

23.29 Although these factors increase the cost of operating military hospitals to some extent, they alone would not account for a significant proportion of the cost differences between the civilian and military hospitals.

The Need for the Range of Services Now Provided by the Canadian Forces Medical System

23.30 The high cost of operating military hospitals raises the question of why it is necessary to provide such a broad range of medical care, separate from the public health care system, for a population of 87,000 CF personnel. As noted earlier, there *is* a requirement to maintain a cadre of fully trained medical personnel during peacetime in order to have a basis for expanding to a wartime structure. This requirement is not by itself sufficient to justify the existing peacetime system.

23.31 In a 1977 study submitted to Treasury Board, DND listed four reasons for maintaining a dedicated medical service in peacetime:

- unique military requirements;
- the need for more rapid access to medical care;
- career development of medical personnel; and
- training of medical personnel.

Unique military requirements exist

23.32 The Department's study suggests that a military medical system must contain some personnel trained in areas that are particularly important to a peacetime military, such as tropical, aerospace and diving medicine. For example, of the 345 established military physician positions, 75 are listed as requiring the flight surgeon occupational specialty qualification (OSQ). Twenty positions require the tropical medicine OSQ and 31 require the basic diving medicine OSQ. We did not audit the validity of the OSQ requirement for these positions; however, we note that the Department is now examining whether the currently held OSQs are relevant to operational requirements.

23.33 Another unique military requirement is participation in peacekeeping activities. Current United Nations peacekeeping commitments in Honduras, the Golan Heights and Cyprus involve three medical officers, nine medical assistants and one preventive medicine technician.

Quick access to hospital care

23.34 We found that, for 29 of the 32 medical facilities with beds, at least one civilian hospital is in the immediate vicinity of each. The Department is concerned, however, that reliance on public hospitals would compromise readiness because of their longer waiting periods for elective surgery. Statistics on waiting time are not reported, either by the provincial health care systems or by DND, so the extent of any difference is not known. Also, no studies have been made of the additional costs entailed in having this higher level of service available to members of the forces.

Maintaining a cadre of military medical personnel

23.35 DND has indicated that CF medical officers cannot concentrate on military skills to the detriment of clinical skills because the quality of care they provide would suffer. Also, it would be difficult to attract and retain medical personnel without CF hospitals for them to practice in.

23.36 Given the difficulties in attracting and retaining medical officers, it would make sense to fill as many as possible of the established wartime positions with reserve medical officers, or to rely on civilians for expansion during times of national emergency. Reservists could maintain their medical skills in civilian practice and develop and maintain the required knowledge of military medical operations through periodic training in the Reserves. The Defence Medical Association has suggested a need for a high-profile type system to encourage people in medical practice to enter the Reserves.

23.37 It is not known precisely how many reserve medical personnel would be required in wartime. Based on rough estimates, however, it is clear that there would be a considerable gap between that requirement and existing numbers of regular medical officers in peacetime.

23.38 We note that the U.S. Department of Defense maintains that most of its required military medical force should be in reserve components. According to the DOD's Medical Readiness Strategic Plan, the size of its regular medical force is based on what would be required until reserves could be mobilized to satisfy the need. After determining the size of the force required to prepare for war, the size of the regular force is adjusted for any additional requirement to provide peacetime health care to military personnel and family members stationed in medically under-served areas. Subsequent adjustments depend on whether the provision of peacetime health care by the military is more cost-effective than by other means.

23.39 Faced with a shortfall of 7,000 reserve physicians, the U.S. DOD has developed and allotted resources for a five-year plan designed to improve the staffing of the reserve forces. The plan includes such initiatives as stipend and education repayment programs, extending the age for mandatory retirement, direct mail campaigns and establishing relationships with professional medical associations.

Hospitals' function in training medical personnel

23.40 DND states that its military hospitals provide core military training and within these facilities personnel acquire the specialized skills they need to perform effectively.

23.41 It is true that the hospitals provide a training ground, particularly for the medical assistant trade which really has no direct civilian equivalent. For example, in 1987/88, 187 individuals took the second phase of their medical assistant training (6,242 training days) in the four hospitals that we examined. As we have noted, however, the fundamental question remains: how many medical assistants must be employed as regular force members in peacetime to provide a basis for expansion in wartime?

23.42 As part of the force structure development process, the Department should determine the minimum dedicated medical support system needed in peacetime, as a basis for expansion to meet wartime needs and to address the unique requirements of a peacetime military. Alternatives designed to improve efficiency should be considered. These might include increased reliance on reservists, use of civilian hospitals for specialties that cannot be cost-justified and adjusting staffing so that it is consistent with patient volume. Resources thus freed could be used to establish essential wartime medical support requirements.

Department's response: *DND will undertake to study the suggestions proposed and to implement those which will result in cost-effective improvement in its medical support system without any significant degradation of care currently being provided.*

24

Department of National Revenue, Taxation

Enforcing the Income Tax Act

Department of National Revenue, Taxation

Enforcing the Income Tax Act

Main Points

24.1 A significant amount of taxable economic activity in Canada goes untaxed. The Department devotes one-third of its resources to enforcement activities. These activities resulted in more than one billion dollars of additional tax assessments in 1989/90 (paragraphs 24.6 to 24.13, 24.31 to 24.35 and 24.37).

24.2 Audits and other manual enforcement actions are taking longer in recent years. At the same time, coverage of the population has declined to such a low level that it is a cause for concern whether enforcement currently acts as an effective deterrent to non-compliance (24.17 to 24.30 and 24.36).

24.3 Improvements in productivity and coverage are possible. Computer matching and reporting requirements can be expanded, better methods can be used to select taxpayers for enforcement action, and greater use can be made of technology (24.38 to 24.65).

24.4 The Department is not adequately equipped to ensure the availability of the right number and quality of human resources in the face of very challenging circumstances. However, management has developed a detailed plan of action to address many human resource problems (24.66 to 24.80).

24.5 Information on enforcement resources and results in Part III of the Estimates is incomplete and inconsistent (24.81 to 24.93).

Table of Contents

Paragraph

Background 24.6
- Enforcing the Income Tax Act is necessary (24.6)
- Enforcement enhances compliance with the law (24.9)
- The Department uses about one-third of its resources for enforcement (24.12)

Audit Objectives and Scope 24.14

Attitudes Toward Enforcement 24.17
- Reduced coverage may influence voluntary compliance (24.18)
- Deterrent value of tax evasion prosecutions may be reduced by limiting publicity (24.20)
- Tax evaders are treated less severely than those who commit other types of fraud (24.22)

Enforcement Performance 24.25
- Audits and other manual enforcement actions are taking longer (24.25)
- The decline in some enforcement actions is worrisome (24.28)
- Additional taxes assessed have doubled in the last six years (24.31)
- Enforcement coverage and the financial results vary greatly (24.34)
- Increases in resources for individual and corporate audits did not materialize (24.37)
- Explicit enforcement objectives and priorities have just recently been communicated to district offices (24.38)
- More formal research is needed for setting priorities and evaluating performance (24.39)

Enforcement Practices 24.41
- Enforcement actions demonstrate the Department's concern for quality (24.41)
- Computer matching is highly productive, and could be expanded (24.42)
- Reporting of social insurance numbers on information slips needs to be improved (24.43)
- More information needs to be filed on magnetic media (24.45)
- Expanded reporting requirements would aid in the detection of unreported income (24.50)
- Selection of taxpayer files is one key to enforcement productivity (24.53)
- It may be possible to improve productivity through greater use of technology (24.60)
- There are delays in obtaining search warrants (24.64)

Management of Human Resources 24.66
- Major departmental initiatives are under way (24.67)
- Better planning is needed (24.68)
- Solutions to recruitment problems are required (24.73)
- Training of enforcement personnel needs to be strengthened (24.75)

Table of Contents (cont'd)

Paragraph

Keeping Parliament Informed 24.81

Information on enforcement in Part III of the Estimates is incomplete and inconsistent (24.83)

Large fluctuations in enforcement results are not explained (24.88)

Additional information that would be useful to Parliament is available in the Department (24.91)

Exhibits

24.1 Enforcement Results and Person-years - 1989 90

24.2 National Revenue, Taxation - 1989 90 Program Structure

24.3 Enforcement Coverage as a Percentage of Tax Returns

24.4 Enforcement Actions and Related Person-years

24.5 Average Time per Enforcement Action

24.6 Additional Taxes Assessed

24.7 Enforcement Results per Person-year by Region - 1988 89

24.8 Enforcement Coverage by Region - 1988 89

Department of National Revenue, Taxation

Enforcing the Income Tax Act

Background

Enforcing the Income Tax Act is necessary

24.6 A significant amount of taxable economic activity in Canada goes untaxed. This is due in part to taxpayer error or to unfamiliarity with tax laws, but to some extent payment of tax is knowingly evaded. Non-compliance with the Income Tax Act can take many forms. Unreported income, overstatement of expenses, and failure to file a tax return all result in lost tax revenues.

24.7 Statistics Canada has reported that the estimated size of the Canadian economy may have been understated for 1981 by at least $ 10 billion. This amount represents income not reported to National Revenue, Taxation (NRT), but does not include any income derived from illegal activities. Statistics Canada has not prepared a more recent estimate. In a separate and more recent study NRT has estimated that there is a potential for additional income tax assessments, in the order of $1.2 billion annually.

24.8 Non-complying taxpayers do not pay their fair share of taxes. The tax system can ensure fairness only if the provisions of the Income Tax Act are enforced.

> *The tax system can ensure fairness only if the provisions of the Income Tax Act are enforced.*

Enforcement enhances compliance with the law

24.9 The Canadian income tax system is based on the principle of self-assessment. Taxpayers determine the amount of tax they owe and provide details about income and expenses, as well as other information, on tax returns filed with National Revenue, Taxation.

24.10 A self-assessment system depends on the honesty and co-operation of taxpayers. Research has shown that taxpayer behaviour is influenced by many factors, key among them being the opportunity for tax evasion. Also important is the way taxpayers perceive the behaviour of other taxpayers, the morality of tax evasion, the likelihood that non-compliance will be detected, and the overall fairness and equity of the system.

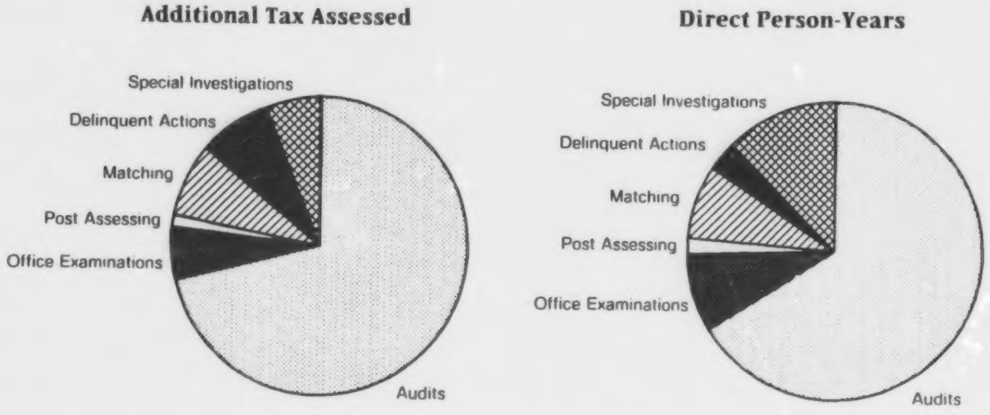
24.11 One of the Department's objectives is to assess and collect income taxes in a fair and equitable manner. Enforcement activities contribute to this objective by detecting and correcting erroneous returns and by securing returns from taxpayers who have failed to file. In most cases this results in an increase in the amount of tax assessed. In 1989/90 the total amount of additional tax assessed through enforcement was about $1.3 billion (Exhibit 24.1). Enforcement is also believed to have a deterrent effect on some taxpayers who might otherwise try to evade payment of taxes.

The Department uses about one-third of its resources for enforcement

24.12 Exhibit 24.2 shows the program structure in National Revenue, Taxation. The Department uses several different enforcement activities to achieve its objectives, and needs thousands of highly trained and experienced people to carry them out. The enforcement activities examined in this audit were expected to consume 6,816 person-years, or 32.7 percent of total authorized person-years, and $358.6 million, or 33.6 percent of estimated departmental expenditures for 1989/90. The total of 6,816 person-years is made up of 4,105

Exhibit 24.1

ENFORCEMENT RESULTS AND PERSON-YEARS
1989/90



Activity	Additional Tax Assessed	Direct Person-Years	Average Additional Tax Assessed Per Direct Person-Year
Audits	$ 952 Million	2,722	$ 350 Thousand
Office Examination	77	341	226
Post Assessing	16	74	216
Matching	105	112	938
Delinquent Actions	107	332	322
Special Investigations	82	524	156
	$1,339	4,105	$ 325

As per departmental records

direct person-years and 2,711 person-years for administrative support.

24.13 The following are the enforcement activities of NRT included in our examination.

Audit. Most enforcement resources are devoted to audits. Audits of tax returns are designed to detect and correct instances of failure to comply with the law, particularly by taxpayers in higher income brackets and by those who have more opportunity to avoid complying. Typically these are corporations, and self-employed individuals whose main source of income is not subject to deduction of income tax at source. Audits normally involve a visit to the taxpayer's premises and include an examination of books, records and operations; the application of accounting principles and tax law to the facts established; and reassessment action where warranted. Audits require highly trained staff and may take from a few days to many months to complete.

Audits normally involve a visit to the taxpayers' premises (see paragraph 24.13).

Office examination and post assessing. These activities resemble audits except that they do not require visits to the taxpayer. They concentrate on verification of information provided by individual taxpayers. Departmental staff may contact the taxpayer for additional information to substantiate claims made about expenses, deductions, exemptions, and federal and provincial tax credits. This work is done by more junior staff and sometimes serves as a training ground for auditors.

Matching. This activity involves comparing information in the taxpayer's return with information from other sources. The objective is to detect and correct cases of unreported income, and incorrect spouse-related claims such as child tax credits, married exemptions and child care expenses. Most of the current matching process is highly automated and does not demand a great many human resources

Delinquent action. The Department has a responsibility to ensure that individuals and corporations required to file tax returns actually do so. Accordingly, it carries out various activities to identify taxpayers who fail to comply, and to secure appropriate tax returns from them. This, too, is highly automated, insofar as the Department compares the record of taxpayer returns filed in the past with those filed in the current year.

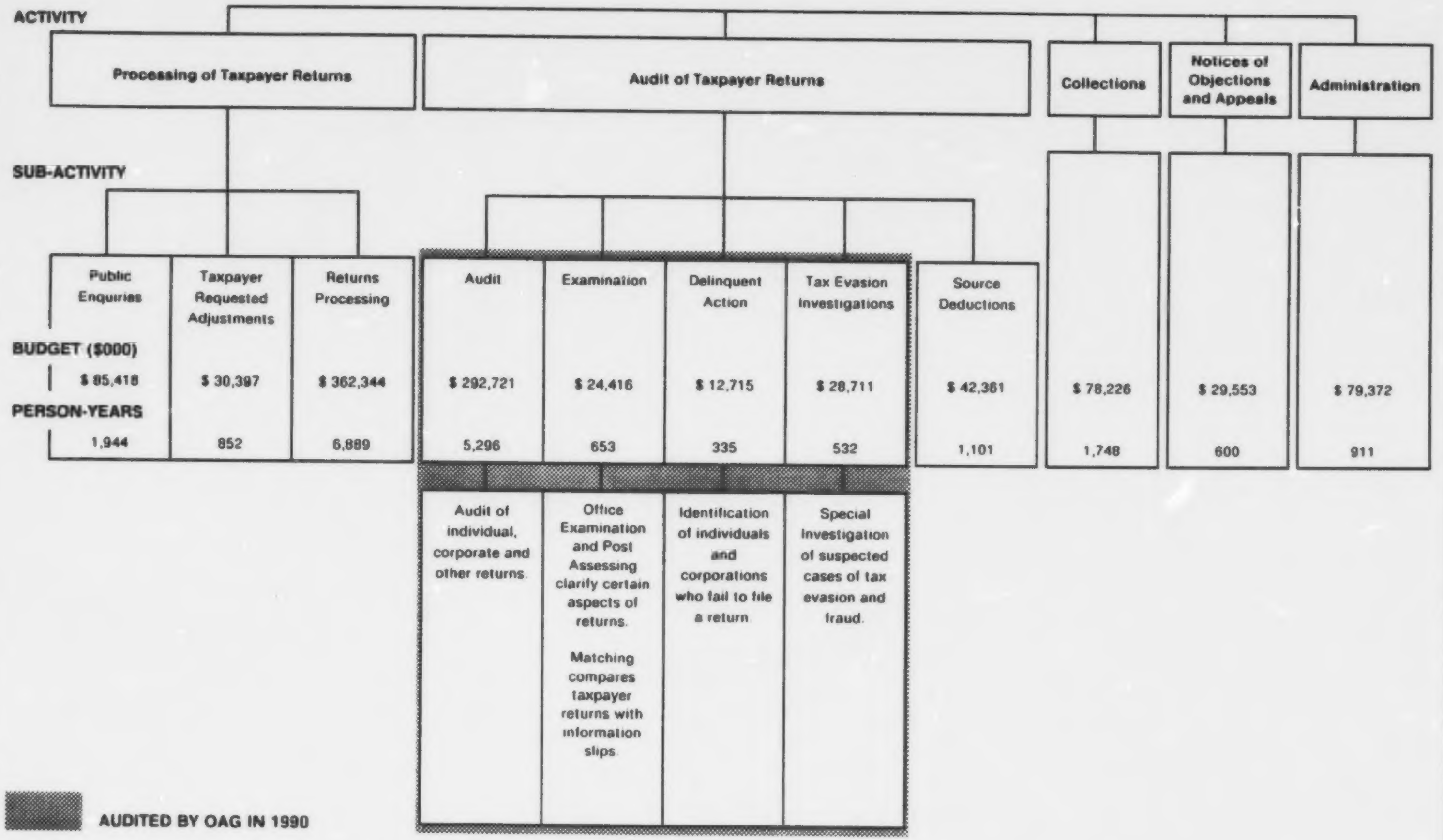
Special investigations. The Department may initiate a special investigation when tax evasion is suspected. Successful prosecutions for tax evasion typically result in very large penalties and fines, and may even involve jail sentences. Because of the exacting requirements of building successful cases, this activity employs highly trained staff.

Audit Objectives and Scope

24.14 The objective of our audit was to determine whether National Revenue, Taxation's program for enforcing the Income Tax Act is managed economically and efficiently, with adequate measures of performance, and whether Parliament is kept informed of results.

Exhibit 24.2

NATIONAL REVENUE, TAXATION
1989/90 PROGRAM STRUCTURE



ACTIVITY	SUB-ACTIVITY	BUDGET ($000)	PERSON-YEARS	
Processing of Taxpayer Returns	Public Enquiries	$ 85,418	1,944	
	Taxpayer Requested Adjustments	$ 30,397	852	
	Returns Processing	$ 362,344	6,889	
Audit of Taxpayer Returns	Audit ▨	$ 292,721	5,296	Audit of individual, corporate and other returns.
	Examination ▨	$ 24,416	653	Office Examination and Post Assessing clarify certain aspects of returns. Matching compares taxpayer returns with information slips.
	Delinquent Action ▨	$ 12,715	335	Identification of individuals and corporations who fail to file a return.
	Tax Evasion Investigations ▨	$ 28,711	532	Special Investigation of suspected cases of tax evasion and fraud.
	Source Deductions	$ 42,361	1,101	
Collections		$ 78,226	1,748	
Notices of Objections and Appeals		$ 29,553	600	
Administration		$ 79,372	911	

▨ AUDITED BY OAG IN 1990

24.15 Our audit concentrated on the following enforcement activities: audit, office examination, post assessing, matching, delinquent action, and special investigations. We excluded the enforcement activities associated with the Department's collections and source deductions activities, because these had been the subject of our audits in 1988 and 1989 respectively. We paid particular attention to human resource management related to enforcement activities. We also reviewed the Department's reporting of enforcement resource requirements and related results, in Part III of the Estimates.

24.16 We performed audit procedures in a sample of 14 of the 37 district offices and 4 of the 7 taxation centres. We believe that the sites, chosen on the basis of size and location, represent a good cross section of the Department. We also visited all five regional offices responsible for the operations of district offices and taxation centres. Finally, our audit examined the head office's role in administrative support and functional guidance to enforcement activities.

Attitudes Toward Enforcement

24.17 By far the largest part of income tax is paid to the government by taxpayers who voluntarily comply with the law. Enforcement activities are aimed at correcting errors in tax returns and at those taxpayers who have failed to comply voluntarily. In the absence of enforcement, the burden of taxation would fall more heavily on those who do comply. Of course, for the government to collect tax through enforcement is much more expensive than voluntary compliance. Ultimately the cost of enforcement is borne by taxpayers. It is in the public interest, therefore, that as many taxpayers as possible comply voluntarily. Yet academic studies have shown that many people view even willful non-compliance with income tax laws as a victimless and not particularly serious crime. To some extent, this public attitude has shaped the way tax administration operates in Canada, as evidenced by low rates of enforcement coverage and the relatively lenient treatment of tax evaders.

Many people view even willful non-compliance with income tax laws as a victimless and not particularly serious crime. To some extent, this public attitude has shaped the way tax administration operates in Canada.

Reduced coverage may influence voluntary compliance

24.18 In the following section of the chapter, dealing with enforcement performance, we provide information on how the number of audits, office examinations and post assessing actions has declined over the past several years. The Department stated in a recent study that a wide exposure of taxpayers to enforcement activities helps to promote voluntary compliance. It expects that taxpayers who become aware of departmental attention to their tax returns will improve their compliance in the future. Other taxpayers often become aware of enforcement activities and improve their compliance as well. This is known as the deterrent effect of enforcement actions.

24.19 How well the deterrent effect operates in the Canadian tax environment has never been demonstrated by the Department and it does not appear that it could be, without considerable research and cost. But if one accepts that enforcement has a significant deterrent effect, then the decline in audits, office examinations and post assessing (shown in Exhibit 24.3) must be cause for concern. There are now large groups of taxpayers whose chances of being subjected to any enforcement action are remote. The Department's concern about the low level of audit coverage was reported in a review of National Revenue, Taxation by a firm of independent consultants, published in 1985. Since then, coverage has declined further.

Deterrent value of tax evasion prosecutions may be reduced by limiting publicity

24.20 Prosecutions of tax evaders are carried out primarily to deter others from similarly breaching the tax laws. Deterrence requires publicity. Until recently the Department actively promoted, within the constraints imposed by law, publicity for its prosecutions through such means as news releases and periodic notices to various professional organizations. As well, the Department has always promoted publicity relating to its special investigations activities, without focussing on specific cases.

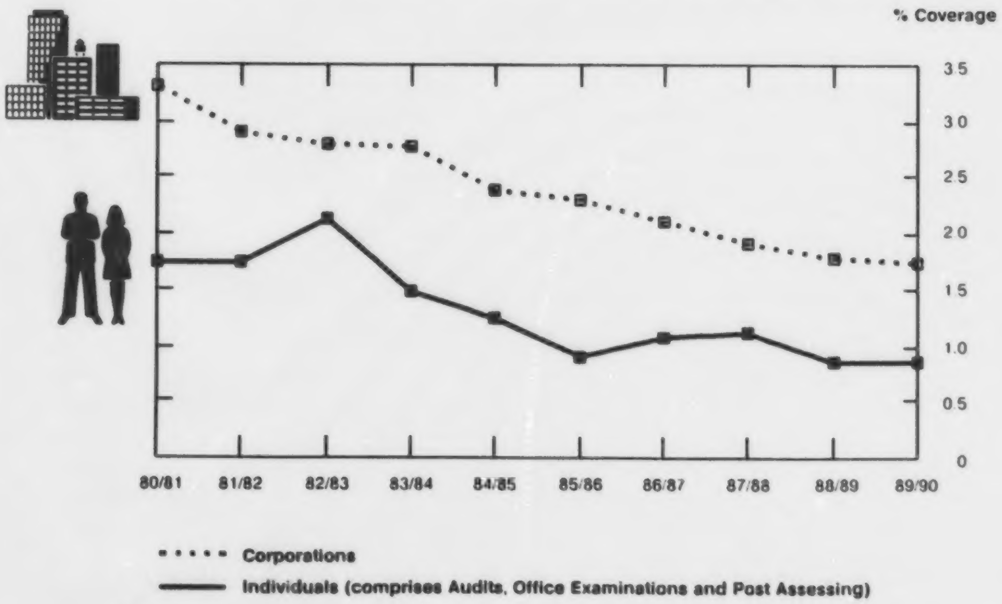
24.21 In 1987, however, the Department adopted a policy of not initiating contacts with the media on specific prosecutions. We found that there has been a large decline in the publicity generated by prosecutions for tax evasions since the adoption of this policy. The Department reports that of the 291 prosecutions undertaken by the Department between August 1981 and September 1983, all but one received some media coverage, with 275 cases covered by newspapers. However, only one-half of the prosecutions resulting in convictions between March 1988 and February 1989 received any media coverage. The Department does not know what impact the reduction of publicity on specific prosecutions has had on the deterrent value of prosecutions for tax evasion. However, the Department points out that there has been no reduction in the number of voluntary disclosures or tips from informants.

Tax evaders are treated less severely than those who commit other types of fraud

24.22 In the past three fiscal years there were 349 prosecutions for attempted tax evasion. There were 17 prison sentences

Exhibit 24.3

ENFORCEMENT COVERAGE AS A PERCENTAGE OF TAX RETURNS



imposed, averaging 10 months in duration. The average tax sought to be evaded per case was over $72,000. We compared the penalties imposed under the Income Tax Act for tax evasion to those imposed under the Criminal Code for offenses involving fraud. We based this comparison on the similarity between elements of tax evasion and fraud.

24.23 The Department makes a practice of waiving penalties for gross negligence when taxpayers voluntarily disclose their past non-compliance, so long as they do so before an audit or a special investigation has begun. Late-filing penalties are always applicable. Thus, in effect, there is a partial amnesty available to tax evaders. When there has been no voluntary disclosure and tax evasion is discovered by the Department, prosecution under the Income Tax Act may proceed by summary conviction or by indictment. Prosecution by summary conviction may result in imprisonment for up to two years; by indictment, for up to five years. The decision whether to proceed by summary conviction or by indictment is at the discretion of the Attorney General (Department of Justice) on the recommendation of National Revenue, Taxation. It is the policy of National Revenue, Taxation not to recommend prosecution by indictment unless a case involves attempted evasion of at least $100,000 in taxes, or other aggravating factors are present. In contrast, the provisions of the Criminal Code make fraud over $1,000 an indictable offense. Prosecutions for fraud by indictment under the Criminal Code may result in imprisonment for up to ten years. Setting a $100,000 threshold for prosecutions by indictment in tax evasion cases means that most tax evaders face a much lower chance of being incarcerated than those convicted of other types of fraud.

24.24 We are not suggesting that the penalties for tax evasion are inappropriate when compared to other types of fraud. That is a value judgment that Parliament, the government and the public must make. The point of this illustration, and of our comments on the decline in enforcement coverage and publicity for prosecution of tax evaders, is to show the values that shape tax administration. We think this knowledge will help readers to better understand the environment in which the Department's enforcement activities are carried out.

Enforcement Performance

Audits and other manual enforcement actions are taking longer

24.25 The number of direct person-years allocated to enforcement activities increased nominally over the period 1984/85 to 1989/90 (Exhibit 24.4). However, there has been a large decrease in the aggregate number of audits, office examinations and post assessing actions. None of these activities are automated and they require a large number of people. Over the same period, there has been a large increase in the number of delinquent actions and matching, which do contain a large automated component.

24.26 The number of cases referred to the Department of Justice by Special Investigations has declined by 4 percent, from 172 in 1984/85 to 165 in 1989/90. A case is referred when Special Investigations has completed its investigation and a recommendation can be made to prosecute. The inventory of cases that are either with the Department of Justice or in the courts has increased to 272 at 31 March 1990, as compared with 146 at 31 March 1986. The number of completed prosecutions for tax evasion has declined from 163 in 1984/85 to 123 in 1989/90 (Exhibit 24.4). It took an average of more than two years from the start of a special investigation to the laying of charges, for cases prosecuted in the last two fiscal years.

24.27 The average time taken per action for audits, office examinations and special investigations has increased significantly. (Exhibit 24.5). For example, the average time required to audit smaller corporate tax returns has increased by about 40 percent over the last five years. These audits consumed between 37 and 40 percent of the total audit resources in the same period. Several factors may have contributed to this. The Department cites as major reasons the increased complexity of the Income Tax Act, more elaborate business

Exhibit 24.4

ENFORCEMENT ACTIONS AND RELATED PERSON-YEARS

ACTIVITY	NUMBER OF COMPLETED ACTIONS 1984/85	1989/90	DIRECT PERSON-YEARS 1984/85	1989/90
Audits				
Individuals	36,437	27,251		
Corporations	16,459	15,751		
Other Returns	1,475	5,270		
Sub-total	*54,371*	*48,272*	2,767	2,722
Office Examinations	43,597	40,676	309	341
Post Assessing	114,934	83,769	109	74
Matching	256,132	521,948	23	112
Delinquent Actions	207,043	326,130	369	332
Special Investigations				
Referrals to Justice	172	165	517	524
Prosecutions	163	123		
			4,094	4,105

practices, and an increased emphasis on taxpayer rights. Another factor is that the Department has decided to concentrate its audit and special investigations efforts on larger, more complex files.

The decline in some enforcement actions is worrisome

24.28 The various types of enforcement action are not equivalent. They are designed for different types of taxpayers and generally detect different types of errors. The low level of some enforcement activities can therefore have important implications. For example, post assessing is essentially a deferral of certain activities in the initial assessment of returns, to avoid unnecessary delay and to ensure that more complex matters are dealt with by qualified and experienced staff. Reduced post assessing activity means that some items on tax returns will not be subjected to scrutiny.

24.29 Delinquent actions are designed to identify and follow up on late filers and non-filers. This work improves equity in the tax system by ensuring that all taxpayers are recorded on the taxroll. However, almost all delinquent actions performed by the Department are directed at late filers. The Department has expressed concern about the low level of emphasis on identifying non-filers, and is looking at ways to increase its coverage in this area.

24.30 Audits are directed at corporations and at certain individuals to ensure compliance with the law. Only about 27,250 returns of individuals were audited in 1989/90, as compared with 36,400 in 1984/85 (Exhibit 24.4). This means that in 1989/90 less than two in 1,000 individual tax returns were audited. Like office examination, audit focusses on individuals who have the greatest opportunity for tax evasion. These are mainly the more than 4,000,000 individuals who are not subject to deduction of tax at source.

Additional taxes assessed have doubled in the last six years

24.31 Except for post assessing, all enforcement activities have resulted in large increases in the amount of additional tax

Exhibit 24.5

AVERAGE TIME PER ENFORCEMENT ACTION

Activity	Time Per Action 1984/85	1989/90	
Audit	99	110	hours
Office Examination	14	16	
Post Assessing	1.9	1.7	
Matching	0.2	0.4	
Delinquent Actions	3.5	2.0	
Special Investigations	782	826	days

Exhibit 24.6

ADDITIONAL TAXES ASSESSED ($ millions)

Activity	1984/85	1989/90
Audit	$ 467	$ 952
Office Examination	31	77
Post Assessing	15	16
Matching	26	105
Delinquent Actions	83	107
Special Investigations	26	82
	$ 648	$1,339
Percentage increase		107%

assessed between 1984/85 and 1989/90 (Exhibit 24.6). Overall, the net increase amounted to 107 percent. Over the same period the consumer price index rose by 24 percent.

24.32 The amount of additional tax assessed from year to year as a result of enforcement actions depends on many things, including the general state of the economy, the relative incomes and types of taxpayers selected, the quality of the enforcement action, and the number of actions performed. It is not possible to determine how much of the total change in the amount of additional tax assessed can be attributed to any single factor.

> *The Department has followed a strategy of targeting its enforcement effort so as to obtain high levels of additional tax assessed while still achieving a visible presence throughout the taxpayer population.*

24.33 The Department has followed a strategy of targeting its enforcement effort so as to obtain high levels of additional tax assessed while still achieving a visible presence throughout the taxpayer population. This is demonstrated by the significant shifts of resources within certain areas of enforcement activity. The greatest shift has been away from audits of individuals toward audits of corporations. Historically, the latter have yielded the most additional tax assessed per audit staff hour.

Enforcement coverage and the financial results vary greatly

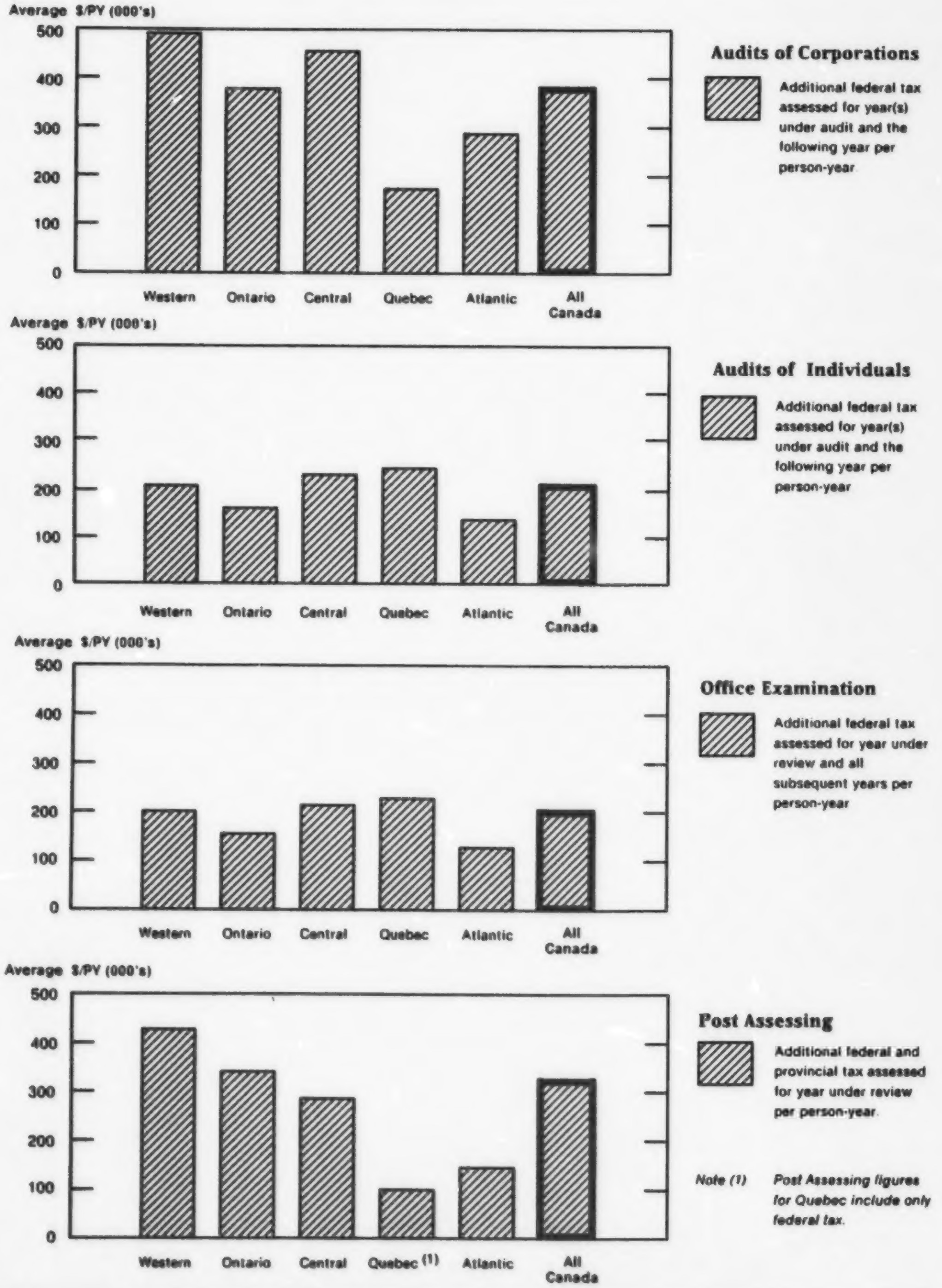
24.34 There are large regional differences in the financial results of enforcement activities. Exhibit 24.7 shows the differences in the amounts of additional tax assessed per person-year in 1988/89, in four enforcement activities.

24.35 Exhibit 24.7 also shows that certain enforcement activities are pursued even when they yield financial results significantly below those obtainable in other areas. Although financial results are important, the Department believes that it should maintain some level of effort in most enforcement activities to discourage non-compliance.

24.36 An analysis of 1988/89 coverage rates by region shows that the combined rate of enforcement actions directed at individuals --

ENFORCEMENT RESULTS PER PERSON-YEAR BY REGION 1988/89

Exhibit 24.7



which includes audits, office examinations and post assessing -- varies from a low of .52 percent in the Atlantic region to a high of 1.31 percent in the Ontario region. Audit coverage rates for corporate tax returns vary from a low of 1.42 percent in the Central region (Metropolitan Toronto and Ottawa) to a high of 2.23 in the Ontario region. (Exhibit 24.8).

Increases in resources for individual and corporate audits did not materialize

24.37 The Departments of National Revenue, Taxation and Finance provided an analysis to Treasury Board in March 1989 showing that 4,052 person-years would be needed to partially restore historical audit coverage rates. In July 1989 the Treasury Board approved an increase of 750 person-years for enforcement, to be made available to the Department for 1990/91. The Department allocated 645 of the 750 person-years to its audit activity. However, a number of person-years were also removed from audit to achieve departmental reductions as part of the government-wide person-year reduction effort. In addition, person-years were transferred from audit to other areas, to handle growth in mandatory workload that had not been funded by Treasury Board. Further person-years were formally transferred from audit to various support services where they had actually been used for a number of years. As a result, and after other minor adjustments, the actual share of resources for audit in 1990/91 has been reduced from 1989/90 levels by 85 person-years. In the end, even though "additional resources" were provided, there was a net decrease in resources for individual and corporate audits.

Explicit enforcement objectives and priorities have just recently been communicated to district offices

24.38 This brief review of enforcement performance illustrates the complex resource allocation task facing the Department. Foremost, enforcement programs must compete with mandatory programs for resources. Then, within enforcement programs a balance must be struck among at least three dimensions (revenue from additional assessments, breadth of coverage, mix of enforcement activities) and over the various regions. An adequate statement of departmental enforcement objectives and relative priorities provides a framework for allocating resources and measuring results. During a conference on compliance strategies in May 1989, the Department formulated a statement of enforcement objectives and relative priorities which was used in planning for 1990/91. The Department has since communicated its enforcement objectives and priorities through its regional offices and through meetings with field managers. The development and communication of enforcement objectives and priorities are steps in the right direction. Previous to this initiative, they had not been explicitly communicated to the district offices. District offices are allowed to deviate substantially from the original plan, and often do so. Consequently, there had been no assurance that enforcement resources in district offices were being used in accordance with departmental objectives and priorities.

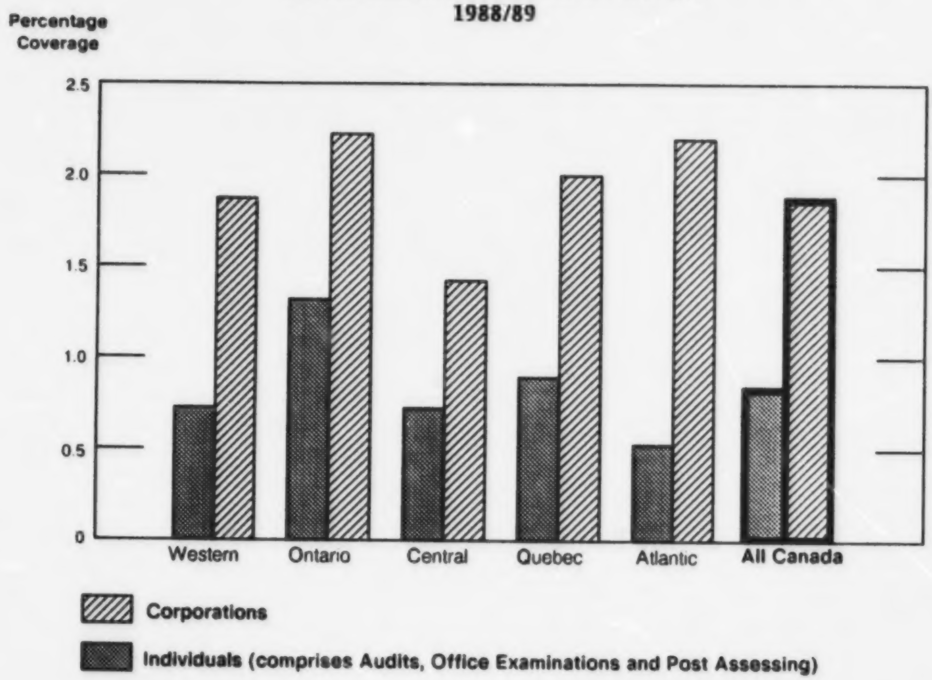
The Department has little accurate information about the effects of its enforcement activities on the behaviour of taxpayers.

More formal research is needed for setting priorities and evaluating performance

24.39 At the present time, the Department has little accurate information about the effects of its enforcement activities on the behaviour of taxpayers. Decisions are often based on opinions formed through many years of enforcement experience. Formal research efforts may provide a more solid basis for developing policies and setting priorities. For example, research may provide insight into which of the various forms of publicity best promotes voluntary compliance. In addition, research can provide feedback on the effectiveness of enforcement activities.

Exhibit 24.8

ENFORCEMENT COVERAGE BY REGION
1988/89



24.40 The Department should perform more research to assist in the formation of appropriate enforcement policies and to provide feedback on the effectiveness of enforcement activities.

Department's response*: There is unlimited research that could be carried out to gauge the effects of enforcement activities. However, it is obvious that this must be tempered with due consideration for the substantial costs involved. With our limited resources we have conducted considerable research and consultation in this area which has provided valuable results. We will continue to conduct research, on a selective basis, as our resources and the expected cost benefit of the results warrant.*

Enforcement Practices

Enforcement actions demonstrate the Department's concern for quality

24.41 The Department maintains an extensive operating manual that contains detailed instructions and procedures for each type of enforcement activity. These are intended to ensure that taxpayers are treated in accordance with the law. Our review of a sample of completed audit files showed that work consistently met the Department's criteria for adequate planning, supervision and documentation of procedures and findings.

Computer matching is highly productive, and could be expanded

24.42 The Department continues to increase its use of computers to process large amounts

An important use of computers involves matching various information slips with filed tax returns (see paragraph 24.42).

of data quickly and efficiently. Many new computer systems have been implemented in the last ten years to improve taxpayer services, management information and enforcement activities. One important use of computers involves the matching of various information slips with tax returns filed by taxpayers. Such computer matching has proven to be highly productive in identifying non-compliance and in generating reassessments (Exhibit 24.1). Currently only T4 (employment income) and T4U (unemployment insurance) slips are matched with the help of computer systems. There are plans to do the same with T5 (investment income) and other information slips.

Reporting of social insurance numbers on information slips needs to be improved

24.43 The use of computers in this matching process is feasible only if information slips contain a social insurance number. A 1988 law requires that holders of interest-bearing accounts provide their social insurance numbers to the financial institutions holding the accounts. Financial institutions are to make reasonable efforts to obtain this number for such accounts and to report it annually on the T5 slip to National Revenue, Taxation. Individuals refusing to provide a social insurance number to financial institutions are subject to a possible penalty of one hundred dollars. There remain two major impediments to the successful implementation of computer matching of T5 slips: the absence of a valid social insurance number and either not having the information in machine-readable form or not converting it to machine-readable form.

24.44 The Department estimates that in 1989 only 50 percent of the T5 slips submitted on magnetic media by financial institutions included social insurance numbers. The Department has not made a corresponding estimate for T5 slips filed in paper form. Given that the requirement was fairly new at the time of our audit, this low level of compliance may be merely temporary.

More information needs to be filed on magnetic media

24.45 The increased use of computers by business makes it less onerous than in the past to comply with reporting requirements, while greatly simplifying the enforcement effort, especially when the information slips are filed on magnetic media.

24.46 Information slips in Canada still are filed mostly on paper. For 1989, only 20 percent of T4 slips sent in by employers and 38 percent of T5 slips received from financial institutions were filed on magnetic media. In contrast, the Internal Revenue Service in the United States reports that 94 percent of such slips there were filed on magnetic media in 1988. In Canada there is no legal requirement to use magnetic media. In a recent marketing initiative, National Revenue, Taxation attempted to increase filings on magnetic media. However, there is a perceived impediment among employers and financial institutions, in that filing the required information on magnetic media increases the likelihood that their employees or clients will be subject to enforcement action.

24.47 When information slips are filed on paper, the Department must convert them to magnetic media before the information can be easily sorted, accumulated by taxpayer account and matched against the taxpayer's return. Manipulating the information manually requires large numbers of people, particularly if there are no social insurance numbers on the information slips. Resource constraints usually make this an unrealistic alternative.

24.48 Automated matching of T5 slips, which is now possible at least for those where complete data is available on magnetic media, is expected to enhance the detection of unreported investment income. In the mid-1980s the Department undertook a manual matching program of T5 and T600 (another type of investment income return) slips using summer students. It found that significant additional federal tax revenues resulted.

24.49 The Department should take steps to increase the rate of filing of information slips on magnetic media to at least 80 percent or more of all such slips. If necessary and justifiable in terms of compliance cost, the Department should consider making the filing of information slips on magnetic media compulsory in most cases.

***Department's response**: We will continue to expand our marketing initiative to secure voluntary compliance for the filing of information slips on magnetic media. These efforts have been successful since we are receiving very good co-operation from the corporate and financial communities. Furthermore, as these communities evolve toward the increased use of computer technology in their operations, we expect this co-operation will grow. Compulsory magnetic filing would cause unfair and unnecessary expense to smaller businesses which may not be adequately equipped. For these reasons, we do not see the need to make the filing of information slips on magnetic media compulsory.*

Expanded reporting requirements would aid in the detection of unreported income

24.50 One of the most effective ways to reduce taxpayer non-compliance, particularly the non-reporting of income, would be to make taxpayers' financial transactions more visible -- that is, subject to reporting requirements. With appropriate information slips, the Department could use computer matching to determine whether a taxpayer had reported the income. The government has moved in this direction, with increased reporting requirements for tax shelters, partnerships, bearer debt instruments and investment accounts.

One of the most effective ways to reduce taxpayer non-compliance, particularly the non-reporting of income, would be to make taxpayers' financial transactions more visible.

24.51 A number of countries, particularly the United States, require the reporting of information to a much greater extent than Canada. For example, U.S. businesses that make payments to contractors must submit information slips to the Internal Revenue Service. This has significantly reduced non-reporting of income by contractors.

24.52 The Department of National Revenue, Taxation should recommend that steps be taken to increase the visibility of more types of financial transactions by requiring that parties to the transactions report them directly to National Revenue, Taxation when this can be justified in terms of total costs and benefits.

Department's response: *We have been very active in this regard as evidenced by Bill C139 passing in September 1988. This Bill introduced new reporting requirements for tax shelters, partnerships, bearer debt and securities transactions. Without losing sight of the potential increase in paper burden that additional reporting requirements could cause the public, we will consult with the Department of Finance to examine ways to increase the visibility of more types of transactions, if this can be justified in terms of total cost and benefit.*

Selection of taxpayer files is one key to enforcement productivity

24.53 The Department's selection processes are intended to identify taxpayer returns where the probability of non-compliance is high, so that enforcement activities can concentrate on those taxpayers. However, nearly 25 percent of all audits by the Department (representing approximately 15 percent of available audit time) do not result in a reassessment of the taxpayer. Reducing this rate by one percent nationwide could generate additional federal revenues of as much as $10 million annually.

24.54 A large portion of all audits and office examinations done by the District Offices are selected initially through a Computer Assisted Audit Selection system (CAAS). CAAS was implemented to reduce manual screening requirements without reducing the productivity of audits. Returns selected using CAAS are still subject to a further manual screening process, before any enforcement action is started.

24.55 The remainder of the audits and office examinations are done as a result of special projects, or are triggered by other enforcement actions. On average, the additional tax resulting from an enforcement action is comparable for either method of selection.

24.56 Improvements in the selection of taxpayer files for enforcement action could come from several directions. One possibility would be to improve the use of current selection tools. Little training has been provided for CAAS users. Screeners are not made aware of all of the system's capabilities, nor are they shown how to make the best use of the system. One region recently provided additional training and specific guidelines to field auditors and supervisors in this area and as a result was able to reduce the rate at which its audits resulted in no change.

24.57 Another possibility would be to improve the ability of CAAS to identify non-complying taxpayers. CAAS reviews taxpayer files and assigns a numeric score to each file. Scores are meant to increase in proportion to the likelihood that an audit or examination would identify non-compliance, and in proportion to the amount of any potential reassessment. Our review indicated that the Department has never adequately proven that the scoring system works as intended. Further tests are required to determine its validity.

24.58 There is also a potential for improvement in special project results. Compliance research could be expanded to detect significant areas of non-compliance and to develop recommendations on how to reduce it. At present, the Department devotes relatively few resources to such research. There is a small group of people at head office engaged in special compliance research projects, and there is some testing of compliance in selected sectors of the economy by a few district offices, but the effort is fragmented and given low priority. More research could be carried out in areas where there are reasonable expectations for success.

24.59 The Department should improve the effectiveness of its selection of

taxpayers for enforcement actions through evaluation of automated selection methods, improved training on the use of CAAS, and more research to identify areas of non-compliance and means of addressing them.

Department's response: *We will continue with our ongoing evaluation and improvement of our automated selection methods and Computer Assisted Audit Selection (CAAS) training. We will also continue our research efforts subject to resource availability and cost benefit of expected results.*

It may be possible to improve productivity through greater use of technology

24.60 Auditing a taxpayer is still a largely manual, labour-intensive process. The Department has recently started to introduce microcomputers to assist auditors in making complex calculations and reviewing computer-based accounting records. A number of other potential applications have been identified, among which are the following.

24.61 Auditors require access to many sources of information, such as legislation, interpretation bulletins and internal directives. Auditors spend a significant amount of time doing research using these sources. The Department has stored much of this information on electronic media for easy access by microcomputers. The auditor needs only to specify the subject and the microcomputer identifies the relevant references. The Department plans to expand its use of microcomputers and make them available to all auditors.

24.62 The identification of non-filers is a difficult problem facing the Department. One effective technique is to match external information sources against departmental records, but this is often impractical when done manually. The Department currently does little of this. Such activity is somewhat restricted by safeguards regarding privacy, found in the Income Tax Act as well as in other statutes. Where appropriate, microcomputers could be used to access and extract information from public data banks for later computerized matching.

24.63 The effectiveness of the manual screening of returns to identify taxpayers who likely have not complied depends on the skill and judgment of the screener. We were told that the process is demanding and that the effectiveness of screeners diminishes after a relatively short time, due to fatigue. The use of artificial intelligence/expert systems techniques to assist in the screening process has the potential to alleviate this problem. It may also permit the use of less experienced staff as screeners. The Department has plans to investigate the potential use of these techniques.

There are delays in obtaining search warrants

24.64 The process used by Special Investigations to obtain search warrants is very long. It often takes months to complete all the procedures. There are seven levels of departmental review, three of them at head office, before the documentation to obtain a search warrant is finalized. The Department states that the long duration of the process is partly caused by the more stringent procedural requirements imposed upon prosecutions for tax evasion as compared to prosecutions for fraud under the Criminal Code. Other possible reasons for delay are the low number of search warrants used by the Department, and the consequent inexperience of many of the special investigators in preparing the necessary documentation. NRT has recognized a need to improve the process within the Department for obtaining search warrants, to reduce the time involved. Prompt action on search warrants is important because the evidence of tax evasion could be removed or destroyed during the interim.

24.65 The Department should find ways to reduce the time involved in obtaining search warrants, while continuing to safeguard the rights of taxpayers.

Department's response: *In keeping with our ongoing efforts to improve efficiency and effectiveness, we have already started an in-depth study to re-evaluate the procedures for obtaining search warrants. Our aim is to reduce the time frames and the number of*

Auditors need many sources of information, such as legislation, interpretation bulletins and internal directives (see paragraph 24.61).

levels of review in the process while maintaining the integrity of the system, procedural fairness and due process.

Management of Human Resources

24.66 The Department employs thousands of highly trained and experienced individuals across the country to carry out its enforcement activities. Human resources represent by far the most important asset of the Department. Its proper management is essential to the Department's success in achieving its objectives.

Major departmental initiatives are under way

24.67 At its National Directors' Conference in January 1989, the Department identified major issues affecting service to taxpayers and departmental human resources. Subsequently, several task forces were created to analyse the issues and make recommendations for resolving them. The task forces dealt with topics such as corporate mission and values, resourcing, and career planning and development. In December 1989 the Senior Management Committee approved most of the task force recommendations. In March 1990 an implementation strategy was approved, and a mechanism established to monitor progress and periodically report on results. The Department is devoting substantial effort and resources to these initiatives and plans to have most of the recommendations implemented by the end of 1990.

The Department is facing some significant challenges that are creating strains on its existing human resources.

Better planning is needed

24.68 Human resource planning is one of the basic management tools to help obtain the best use of the current resource and to ensure the future availability of adequately trained and motivated staff.

24.69 The Department is facing some significant challenges that are creating strains on its existing human resources. The following are likely to affect the type, quantity, and training of human resources that will be needed in the future:

Legislation is becoming ever more complex, as illustrated by income tax reform and the proposed reform of provisions concerning tax-assisted retirement savings.

Use of technology and automation is increasing.

As of the end of June 1990, over 200 employees had chosen to take up positions with National Revenue, Customs and Excise for the goods and services tax organization.

The Department does not always meet its own enforcement targets and in some areas productivity is declining.

Auditors in large cities like Toronto and Montreal change positions frequently for various legitimate reasons, including transfers, rotations and promotions.

According to the Department some 38 percent of its management employees will be eligible for retirement within the next five years, and more than 68 percent in the next ten.

24.70 In response to these pressures, the Department is working toward establishing a human resource planning process at the corporate level. What is required is a process where strategies, together with long- and short-term objectives, are developed by headquarters in collaboration with district offices, taxation centres and regional offices. In addition, managers will need human resource management tools appropriate to their local circumstances.

24.71 Improved planning practices require more accurate and timely information. The Department does not have an integrated human resource data base to facilitate human resource planning and utilization, even though it has recognized the need for a number of years. Without the data base, the Department is not in a good position to foresee potential shortages in skills or experience, and to take steps to prevent them.

24.72 The Department should implement human resource information and planning systems at both the national and local levels to help identify existing and future human resource requirements and problems.

Department's response*: We have begun the process of developing an integrated on-line personnel management information system which will be a working tool for both Head Office and the Field. The system will permit the Department to better monitor and analyse its human resources and to identify and plan for its future requirements. The project was initiated in July 1989, with the first module to be delivered in the spring of 1991.*

Solutions to recruitment problems are required

24.73 It is difficult to attract experienced candidates for senior auditor positions in the Toronto area, due to competition from the private sector. Certain specialized positions are also difficult to staff. Furthermore, the hiring process is often too long and the Department sometimes loses good candidates. The Department has tried to encourage transfers to Toronto from other regions, but to many this is unattractive because of the high cost of living, and other reasons. Another departmental initiative -- recruiting less-experienced staff -- entails greater time and effort to provide training and career development. It also requires more supervisors to ensure that on-the-job training is adequate and that the quality of work meets the Department's standards.

24.74 At the time of our audit the Department was discussing further possible solutions to these problems with the Treasury Board Secretariat.

Training is essential to efficiency and effectiveness (see paragraph 24.75).

Training of enforcement personnel needs to be strengthened

24.75 The complexity of the Income Tax Act and the dynamic nature of the tax environment make training essential to ensuring the efficiency and effectiveness of the Department. However, these same factors, when combined with the size of the workforce, also make it difficult to provide adequate training.

24.76 National Revenue, Taxation reports having spent over $26 million on training in 1988/89. This figure, which includes participants' salaries, represented 2.6 percent of NRT's operating costs. The Department estimates that about 35 percent of the training cost was for training enforcement personnel.

24.77 In March 1988, official training profiles for a number of audit positions were issued by the Audit Programs Directorate and the Centre for Career Development. These profiles are designed to identify the training required for individuals at various job levels. They were to be used as guidelines to determine annual training requirements in the Department.

24.78 The Department has identified a need to revise these new training profiles, to take into account changes in auditors' functions and in course content. There are also a number of important positions and operational functions for which training profiles have yet to be developed.

24.79 We found that the training profiles often are not used by managers in identifying training needs or in developing training plans for individuals reporting to them. Although training is monitored, no formal mechanisms exist to monitor auditors' progress against their training profiles. As a result, the Department does not know the amount of training necessary to meet the requirements defined in the various training profiles, although a recent survey indicated that there is a significant gap in training.

24.80 **Training profiles for all enforcement personnel should be developed and kept up to date. The Department should determine the overall training gap and develop a strategy to address it in the most efficient manner. The Department should monitor employees' progress against their training profiles.**

***Department's response:** Additional training profiles are in the process of being completed. We will re-emphasize our encouragement to departmental managers to monitor their employees' progress against these profiles through the use of the Department's automated Training History System. This system, which is currently maintained on personal computers, provides a complete listing of reported training by employee.*

Keeping Parliament Informed

24.81 Part III of the Estimates is the major vehicle for reporting annual program resource requirements and results to Parliament. The document in its current format was introduced in the early 1980s, to permit parliamentarians to review departmental expenditure plans more effectively by providing more and better information about planned and actual program performance. It is used by parliamentarians and others who are looking for a comprehensive overview of departmental programs, financial and human resource requirements, plans and results.

The Department's Part III contains some weaknesses which reduce its value as a major source of information on enforcement activities and results.

24.82 Part III of the Estimates should describe a department's objectives, plans, resources and related performance reliably, objectively and completely. Our review of information on enforcement in the Department's Part III identified some weaknesses which, in our opinion, reduce its value as a major source of information on enforcement activities and results, for parliamentarians and others.

Information on enforcement in Part III of the Estimates is incomplete and inconsistent

24.83 One of the important objectives of the document is to tell Parliament how resources previously allocated have been used and what results were obtained. The Department uses the dollar amount of reassessments and tallies of program outputs as proxies for the measurement of program effectiveness. Different types of enforcement activities result in different amounts of additional tax assessed. They are shown in Part III separately in various tables, together with the person-year resources associated with the specific activity.

24.84 We found that the Department often does not account for the use of all the resources allocated to a given activity. For instance, according to the 1990/91 Part III, the Department allocated 5,286 person-years to the audit sub-activity in 1988/89. Part III accounts for 2,540 person-years directly associated with audits, together with the number of files audited and the amount of additional tax assessed. It provides the reader with an approximate measure of how much additional tax assessed can be obtained by the addition of each staff member directly involved in audits. However, Part III does not explain how the remaining 2,746 person-years were used or what results were obtained with them. In other words, more than half the resources are unaccounted for. Similarly, a tally for the examination sub-activity shows that Part III gives results data for only 385 of the 437 person-years allocated to this activity in 1988/89. For the audit sub-activity, the person-years unaccounted for include those for various head office and district office functional and support staff, as well as for audit file selection and audit review. For the examination sub-activity, the person-years unaccounted for include those used for internal review activities and for handling adjustments.

24.85 The Department does not use a consistent basis for accumulating and reporting program results. For example, one performance measure is the amount of additional tax assessed as a result of specific enforcement activities. But the measure can vary according to the type of enforcement activity. For audits, it represents only the federal income tax portion of the difference between the original assessments and the actual or estimated tax assessment for the year(s) under audit and the year following. For post assessing and matching, the reported figure represents both the federal and the provincial tax portion of the difference between the original assessment and the estimated reassessment. In our opinion, the total of the additional federal and provincial taxes assessed would be a more useful measure of program results.

24.86 We also noted that the Department is not consistent from year to year in accumulating the "additional tax assessed" figures for audits of charities, trusts, Scientific Research Tax Credits, some individuals, and certain other returns. It does not reflect all the audits of such returns conducted in each year and there is no explanation in the text to indicate what has and has not been included in the figure that year.

24.87 Part III does not report the interest billed to taxpayers as a result of enforcement actions. Nor does the Department report financial results associated with delinquent actions, even though this information is available in the Department.

Large fluctuations in enforcement results are not explained

24.88 As reported in the 1990/91 Part III, the additional tax assessed per audited file for individuals increased from $ 3,685 in 1986/87 to $ 5,094 in 1987/88, and to $ 6,382 in 1988/89. For audits of corporations the additional tax assessed per audited file increased from $ 27,309 in 1986/87 to $ 47,916 in 1987/88, and then dropped to $ 41,004 in 1988/89. No explanations were given for the large differences from one year to the next.

24.89 The same Part III reported that the total number of cases investigated by Special Investigations dropped from a high of 561 in 1986/87 to a low of 459 in 1988/89, even though the resources for this activity actually increased in the same period by about five percent. Although an explanation was provided for the increased resource usage, the decrease in the number of investigated cases was not adequately explained.

24.90 In Part III of the Estimates the Department should include performance information on each enforcement activity. All resources should be accounted for, a consistent basis should be used for reporting results and large fluctuations in results should be explained.

Department's response: *We accept the observations concerning inconsistency in the presentation of "additional tax assessed" data and will work to improve this aspect of our reporting. In terms of information being incomplete, we acknowledge that our reporting is concentrated on the important direct "deliverable outputs" and related costs of the Activity. This emphasis is at the expense of reporting on the administrative and program support resources allocated to the Activity. We are currently engaged in the process of examining the component parts of each Activity to ensure that distinct functions are clearly identified in the most meaningful manner. In addition to this review, we will give full consideration to providing more complete coverage of all resources in each Activity in Part III, including those related to administration and program support.*

Additional information that would be useful to Parliament is available in the Department

24.91 The Department has national information systems which are used to manage resources and to measure results. It is already collecting a great deal of information related to enforcement. In our opinion, some of the information not currently reported could be useful to parliamentarians and others.

24.92 As an example, Part III gives no accounting of the amounts actually collected from taxpayers as a result of enforcement activities. Tax reassessments are often changed through successful appeals. In addition, not all of the amounts billed are paid by taxpayers. A study of special investigations by internal audit showed that, in 18 cases concluded in 1988/89, only 46 percent of the assessed amounts, penalties, and interest had been collected as of May 1989. Computer systems have not yet been fully developed to regularly capture and report such information.

24.93 It may also be helpful to report the use of enforcement resources and results in graphic form and over a longer period. An accompanying narrative could explain current departmental concerns and priorities, particularly as regards such issues as audit coverage and the appropriate mix of activities.

25

Office of the Superintendent of Financial Institutions

Office of the Superintendent of Financial Institutions

Main Points

25.1 The Office of the Superintendent of Financial Institutions (OSFI), established in 1987, has made considerable progress in implementing an effective supervisory framework for deposit-taking institutions. Among its initiatives are the upgrading of its professional staff, the establishment of better working relationships with boards of directors, external auditors, and industry and professional associations, and the development of detailed examination procedures in certain key areas (paragraphs 25.4 and 25.17 to 25.21).

25.2 In spite of this progress, further important improvements are needed. OSFI is already taking steps to deal with many of these challenges. For instance, it needs to ensure that:

- its procedures for monitoring the ongoing operations of institutions are fully in place (25.28 to 25.42);
- particular attention is paid to upgrading the risk assessment processes in annual examinations (25.43 to 25.65);
- procedures for assessing risks to institutions from their securities subsidiaries are fully implemented (25.57 to 25.62);
- procedures and practices for reliance on external and internal auditors are clarified and strengthened (25.66 to 25.76);
- procedures for testing institutions' compliance with applicable legislation, regulations and guidelines are improved (25.82 to 25.86);
- priority is given to achieving better co-ordination of activities with the Canada Deposit Insurance Corporation (CDIC) and, as appropriate, with provincial regulators (25.87 to 25.95); and
- immediate attention is given to developing staff training plans and providing the necessary training (25.101 to 25.106).

25.3 OSFI has generally satisfactory procedures for regulatory policy development and rendering rulings on the interpretation of legislation and guidelines. It has made progress in establishing corporate planning and human resource management practices (25.97 to 25.100 and 25.108).

Table of Contents

	Paragraph
Introduction	25.4
Audit Scope	25.12
Supervision of Deposit-taking Institutions	
OSFI Has Taken Important Steps to Develop Further Its Framework for Supervision of Deposit-taking Institutions, but Improvements Are Needed in a Number of Significant Areas	25.17
Principles of Self-Governance and Self-Regulation Need Better Specification and Assessment	25.22
Ongoing Monitoring System that Provides Early Warning of Emerging Problems Is Not Fully in Place	25.28
A centralized data base would facilitate monitoring (25.31)	
Limited financial analysis is done (25.33)	
Tracking of system-wide and sectoral trends needs improvement (25.34)	
OSFI's newly implemented computerized system is only occasionally used (25.36)	
Periodic contacts need to be maintained with management of institutions (25.38)	
Procedures for troubled institutions are not fully defined (25.39)	
Particular Attention Is Needed to Upgrade the Risk Assessment Process in Annual Examinations	25.43
Review of specialized risk areas by examiners is weak (25.47)	
Assessment of risks to deposit-taking institutions from their securities subsidiaries needs strengthening (25.57)	
CAMEL, a measure of financial soundness, needs elaboration and consistent application (25.63)	
Extent of Reliance on External and Internal Auditors Is Unclear and Sometimes Unsupported	25.66
More Complete Examination of the Canadian Payments Association Is Needed	25.77
Compliance by Institutions with Legislation Is Not Being Appropriately Tested	25.82
Improved Co-ordination Is Needed with CDIC and Provincial Regulators	25.87
There is no memorandum of understanding with CDIC (25.88)	
Co-ordination of supervisory activities with provincial regulators is limited (25.91)	

Table of Contents

Paragraph

Regulatory Policy Sector 25.96

Procedures for Developing Regulatory Policy and Rendering Rulings Are Generally Satisfactory 25.97

A Positive Start Has Been Made in Corporate Planning and Program Review 25.99

Professional Development and Training Need Strengthening 25.101

Management Services Sector 25.107

Progress Has Been Made in Human Resource Management 25.108

Security and Conflict of Interest Practices Require Improvement 25.109

Exhibits

25.1 Some Financial Instruments and Off-Balance Sheet Activity of Canada's Largest Banks
25.2 Office of the Superintendent of Financial Institutions - Organization Chart
25.3 Assets and Number of Deposit-taking Institutions Supervised by OSFI - 1989

Office of the Superintendent of Financial Institutions

Introduction

25.4 The Office of the Superintendent of Financial Institutions (OSFI) was established under Part I of the Financial Institutions and Deposit Insurance System Amendment Act in July 1987 with the merger of the Office of the Inspector General of Banks and the Department of Insurance. OSFI was created in recognition of the growing similarity between banks and non-bank financial institutions and the need for a modern regulatory framework, including a strong supervisory activity. It was felt that the supervisory issues would increasingly cut across different financial sectors, and that the merged operation would be better placed to respond with consistent approaches. OSFI reports to the Minister of Finance.

25.5 OSFI is responsible for supervising and regulating banks and investment companies, and the trust and loan companies and co-operative credit associations that are subject to federal legislation. These institutions are collectively known as deposit-taking institutions. It supervises federally regulated insurance companies and pension plans and provides actuarial services for various government pension plans. In all, it administers 10 federal statutes. In addition, OSFI carries out examinations of provincially incorporated financial institutions and pension plans under federal-provincial agreements or as an agent of the Canada Deposit Insurance Corporation (CDIC).

25.6 The 1987 amendments to the financial institutions legislation gave OSFI broader powers to intervene when problems are identified in a financial institution than were available previously. For example, it may issue "directions of compliance" requiring an institution to cease or refrain from certain actions and to perform such acts as the Superintendent may direct.

25.7 The financial services industry is central to every aspect of economic activity in Canada. It plays a key role in allocating capital and serving as a vehicle for the payments system. Financial institutions are in a unique position of trust in handling funds belonging to the general public and businesses. Mismanagement of financial institutions, if it were to occur, could have a significant adverse impact on economic activity in Canada and on public confidence in the financial system. The supervisory role of OSFI, therefore, is an important element in the financial services industry's contribution to the growth of the Canadian economy and the maintenance of public confidence in the industry. OSFI emphasizes that management of a financial institution must be as devoted to its fiduciary responsibility as it is to its entrepreneurial responsibility to the shareholders.

The financial services industry is central to every aspect of economic activity in Canada.

25.8 There has been a tremendous growth in the sophistication, innovation and globalization of financial markets. A much wider use is now being made of instruments such as swaps, note issuance facilities, forward contracts and options (see Exhibit 25.1). Increasing globalization has added new risks as well as new opportunities for financial institutions. There is a continuing trend toward financial conglomerates where some members are regulated federally, some are regulated provincially, and some are not regulated at all. This makes the task of the regulators difficult. Against this backdrop, some of the legislation governing financial institutions, particularly relating to trust and loan companies, has been

OSFI administers 10 statutes (see paragraph 25.5).

in place for many years and does not take into account the significant evolution in the financial services industry. All these factors add to the challenges OSFI faces.

25.9 OSFI is organized into four sectors: Deposit-taking Institutions; Insurance and Pensions; Regulatory Policy; and Management Services (see Exhibit 25.2). The first two sectors conduct the supervision of their respective industries. The Regulatory Policy Sector carries out research on regulatory issues and provides rulings on the interpretation of legislation, regulations and guidelines. It develops regulations, conducts program review and contributes to the development of federal legislation governing financial institutions. It is also responsible for corporate planning and professional development. The Management Services Sector provides internal support services in the areas of personnel, information systems, finance and general administration.

25.10 OSFI's headquarters are in Ottawa. However, the examination activity and a large part of the monitoring activity are carried out from its regional offices in Toronto, Montreal, Winnipeg and Vancouver. Of the 375 staff, 49 are in the Regulatory Policy Sector, 80 in the Deposit-taking Institutions Sector, 158 in the Insurance and Pensions Sector and 88 in the Management Services Sector.

25.11 Pursuant to the legislation governing the various financial institutions, OSFI recovers its operating expenses from the institutions using pre-determined formulae. Expenses incurred in connection with the work done for the Canada Pension Plan, CDIC and certain provinces are recovered from them. For 1989/90, OSFI will recover $36.2 million of the $39.3 million spent on its operations, with the balance, primarily relating to the actuarial services provided to federal programs, absorbed by the federal government.

Audit Scope

25.12 Our audit covered the major activities of the Deposit-taking Institutions Sector, the Regulatory Policy Sector, and the Management Services Sector.

25.13 In the Deposit-taking Institutions Sector, we audited the processes for examinations and ongoing monitoring of the activities of the institutions, and the handling of troubled institutions. We examined OSFI's

Exhibit 25.1

SOME FINANCIAL INSTRUMENTS
AND OFF-BALANCE SHEET ACTIVITY OF CANADA'S LARGEST BANKS

	1986	1988	% change
	($ billions)		
Credit Instruments			
Guarantees and letters of credit	26	29	11.5
Commitments to extend credit	222	253	14.0
Issuance facilities	6	7	16.7
Interest Rate and Foreign Exchange Contracts			
Foreign exchange forward contracts	353	489	38.5
Foreign currency and interest rate swaps	58	145	150.0
Foreign currency and interest rate futures	14	21	50.0
Future rate agreements	20	53	165.0
Foreign currency and interest rate options	4	9	125.0

Source: *Office of the Superintendent of Financial Institutions, Canada*

activities relating to the Canadian Payments Association. We assessed whether the Deposit-taking Institutions Sector had procedures in place to monitor compliance by the institutions with applicable legislation, regulations and guidelines, and to take appropriate action when non-compliance was detected.

25.14 Our audit of the Regulatory Policy and Management Services Sectors covered such activities as the development of regulatory policy, rulings, corporate planning, program review, professional development and training, human resource management, security and information systems.

25.15 We conducted our audit at the OSFI head office in Ottawa and at all the regional offices. We met with industry officials, industry associations, relevant federal agencies and provincial regulators to seek their views on OSFI's operations. We also discussed with the U.S. regulatory authorities their approaches to the monitoring and examination of deposit-taking institutions.

25.16 Only limited reliance was placed on OSFI's internal audit function because of its limited coverage relative to our audit scope. The Program Review Division comprising internal audit and program evaluation, was just established in October 1989. Its only activities had been two internal audit studies in records management and personnel functions. These studies were taken into account in our audit.

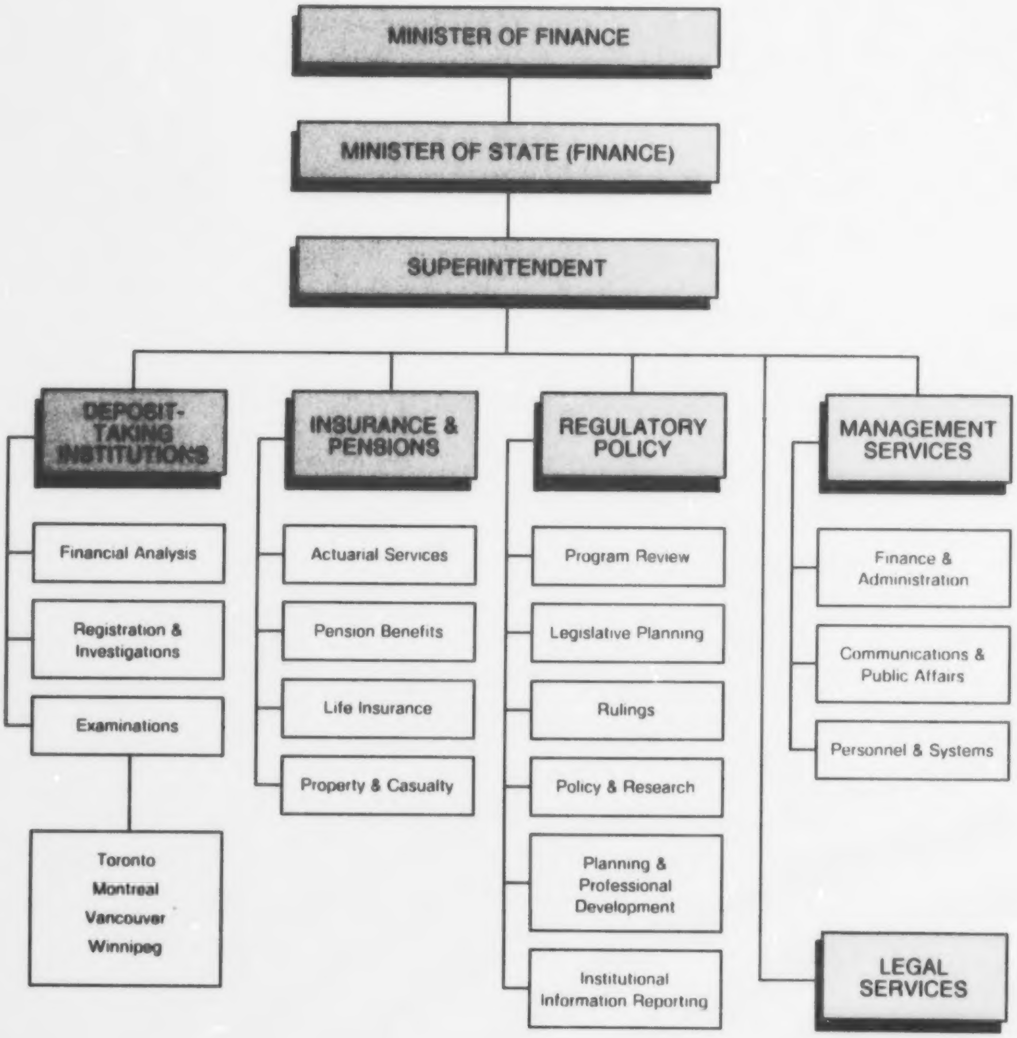
Supervision of Deposit-taking Institutions

OSFI Has Taken Important Steps to Develop Further Its Framework for Supervision of Deposit-taking Institutions, but Improvements Are Needed in a Number of Significant Areas

25.17 In 1989, OSFI supervised 160 deposit-taking institutions, which had total assets of

Exhibit 25.2

**OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS
ORGANIZATION CHART
JUNE 1990**


MINISTER OF FINANCE
MINISTER OF STATE (FINANCE)
SUPERINTENDENT
DEPOSIT-TAKING INSTITUTIONS
Financial Analysis
Registration & Investigations
Examinations
Toronto
Montreal
Vancouver
Winnipeg
INSURANCE & PENSIONS
Actuarial Services
Pension Benefits
Life Insurance
Property & Casualty
REGULATORY POLICY
Program Review
Legislative Planning
Rulings
Policy & Research
Planning & Professional Development
Institutional Information Reporting
MANAGEMENT SERVICES
Finance & Administration
Communications & Public Affairs
Personnel & Systems
LEGAL SERVICES

Source: *Office of the Superintendent of Financial Institutions, Canada*

$666 billion (see Exhibit 25.3). Since its beginning in 1987, OSFI has further developed its framework for carrying out statutory examinations of deposit-taking institutions, including detailed examination procedures in certain areas, to guide its examiners. OSFI has revised its capital adequacy guidelines for banks, based on the framework agreed upon by the members of the Bank for International Settlements (BIS). Work is under way to determine whether similar guidelines could apply to trust and loan companies once the proposed new legislation covering such companies is passed. OSFI is a participant in the BIS subcommittees, which assess and measure risks in interest rate, foreign exchange and equities positions, and off-balance sheet activities to determine the appropriate supervisory response.

25.18 The examination and monitoring activity for the deposit-taking institutions that was previously in Ottawa was substantially transferred to the Toronto and other regional offices to bring it closer to the institutions supervised. The Office launched a major drive to recruit staff with industry background to expand its complement of examiners. This effort is now by and large complete.

25.19 OSFI has taken steps to foster better working relationships with boards of directors of deposit-taking institutions, external auditors, managers of institutions, industry associations, professional bodies and other regulators. It has expanded the scope of the advisory committee of auditors of banks and has set up one for trust companies in order to strengthen relationships with the institutions' auditors.

25.20 Our interviews with industry officials, industry associations and others indicated that the financial services industry has responded well to OSFI's initiatives. OSFI has also established a useful relationship with provincial regulators, with scope for further co-operation. In all, it has developed a positive image for itself and a rapport that will undoubtedly facilitate its future operations.

25.21 While OSFI has made progress in a number of important areas in implementing an effective supervisory framework, further significant improvements are needed. OSFI is taking steps to deal with many of these challenges.

Principles of Self-Governance and Self-Regulation Need Better Specification and Assessment

25.22 The Superintendent attaches great importance to effective and professional self-governance and self-regulation as "the core of financial institutions' regulation". He regards these principles as a key to preventing problems associated with the institutions' solvency and compliance with legislation, regulations and guidelines. He further states that OSFI's "examination of financial institutions represents a de facto assessment of management and its ability to manage".

Self-governance and self-regulation are the core of financial institutions' regulation.

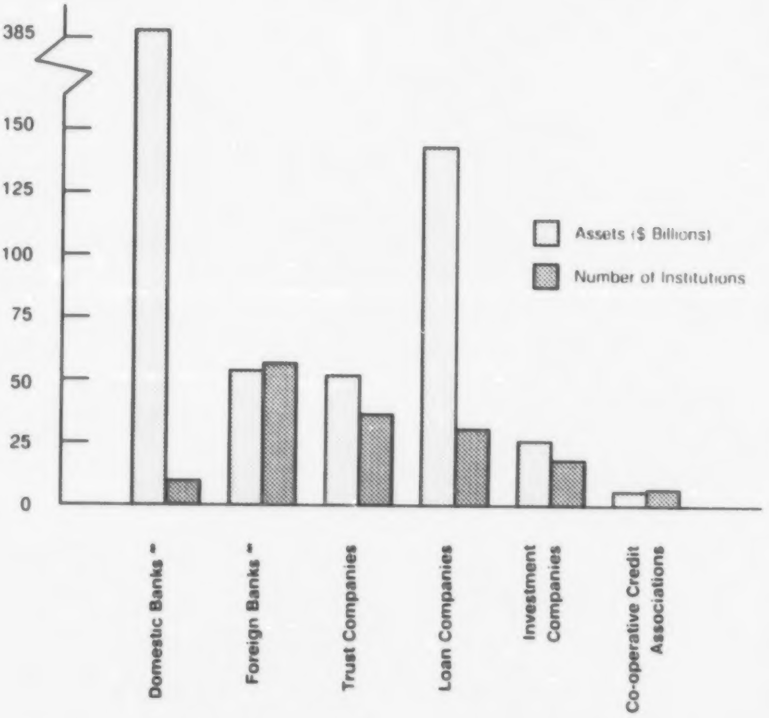
25.23 Section 34 of the Bank Act states that "the directors shall manage the business and affairs of a bank". Thus the role of the board of directors of a deposit-taking institution is vital to the implementation of the principle of self-governance and self-regulation, as it has the ultimate responsibility for management of the institution.

25.24 OSFI has identified elements of self-governance and self-regulation. These include competent and honest management, a board of directors that understands its fiduciary responsibilities, sound management practices, adequately capitalized operations and tight controls over related party transactions.

25.25 OSFI advised us that it has met with the boards of directors of a number of institutions with whom it has discussed in

Exhibit 25.3

ASSETS AND NUMBER OF DEPOSIT-TAKING INSTITUTIONS SUPERVISED BY OSFI *
1989



* Includes provincially regulated institutions examined by OSFI.

** Excludes 'loan companies of banks' which are shown in the exhibit as part of "Loan Companies".

Source: *Office of the Superintendent of Financial Institutions, Canada*

In 1989, OSFI supervised 160 deposit-taking institutions with assets of $ 666 billion (see paragraph 25.17).

greater detail its views on self-governance and self-regulation. It has not, however, formalized and documented in its examination framework its expectations of the boards in this respect. The formalization would be helpful to the examination staff in their assessment of the institutions' practices in this area, including management practices.

25.26 Management practices include financial and management controls designed to provide assurance to the operating management and the board of directors that corporate policies are being adhered to and assets are being safeguarded. We observed weaknesses in OSFI's documentation of the examination of management practices. In most of the files we examined, there was little evidence that the examination staff had discussed with the operating management or the board the institutions' strategic and operational plans. Also, in several cases, there was little evidence that OSFI had examined the institutions' processes to provide timely and

OSFI's examination and monitoring activity for deposit-taking institutions that was previously in Ottawa was substantially transferred to Toronto and other regional offices to bring it closer to the institutions supervised (see paragraph 25.18).

relevant information to the boards of directors on the operations of the institutions.

25.27 OSFI should formalize in its examination framework, its expectations of the boards of directors and operating management, in respect to self-governance and self-regulation and should strengthen its procedures for assessing management practices of deposit-taking institutions.

Ongoing Monitoring System that Provides Early Warning of Emerging Problems Is Not Fully in Place

25.28 OSFI sees its supervisory role as forward-looking. This requires it to identify emerging problems in a financial institution and in the industry at an early stage. To this end, the supervisory framework calls for a continuing program of monitoring the ongoing operations of institutions to complement OSFI's annual examination process. Monitoring includes review of financial data, screening of the information available to the public and contacts with management of the institutions to discuss such information.

25.29 We examined whether OSFI had in place procedures for effective monitoring of deposit-taking institutions, aimed at assessing the continuing solvency of institutions and providing an early warning of any developments that might alter their risk profiles. We identified several areas where OSFI's monitoring procedures could be improved.

25.30 OSFI's system for monitoring the ongoing operations of institutions needs to be better organized and systematized. We observed that the results of monitoring by the examination staff were not always documented. In some cases, no files were maintained for monitoring. Thus, the work of the examiners did not permit adequate review by the supervisors, nor could it be used as a reference for planning future examination and monitoring work.

A centralized data base would facilitate monitoring

25.31 Deposit-taking institutions file a variety of data returns with OSFI, the Bank of Canada and Statistics Canada. A number of such returns are required by the relevant statutes to serve the needs of different users. They contain such information as balance sheet and income statement data, sources of income and foreign currency assets. Some of the data gathered are used for monitoring and examinations of deposit-taking institutions.

25.32 The data are not only voluminous but also have several areas of duplication. There is a need to rationalize and consolidate the government's data requirements and to examine the use of technology in the process. This would reduce the paper burden on financial institutions and lead to greater operational efficiency in relevant departments and agencies. There is no centralized data base on institutions that is readily accessible to OSFI. Since November 1988, an interdepartmental committee under the chairmanship of OSFI has been trying to identify and rationalize information requirements from financial institutions, but it has not yet produced its final recommendations. Its preliminary report dealing with data on banks is currently under discussion with the departments and agencies concerned.

Limited financial analysis is done

25.33 Analysis of financial data on each institution is the responsibility of the examination staff. However, OSFI has provided few guidelines to the staff outlining the nature, depth and timing of the financial analysis needed. While the examination staff conducts some analysis at the annual examination time, it does insufficient analysis on an ongoing basis to assist in the monitoring of the deposit-taking institutions. For example, OSFI has not carried out adequate monitoring of certain key indicators dealing with an institution's geographical and industry exposure.

Tracking of system-wide and sectoral trends needs improvement

25.34 The Financial Analysis Division in Ottawa is responsible for conducting cross-industry analysis on specific topics. It has produced reports on profitability trends, banks' capital adequacy and banks' non-performing loans. It has also done studies on such areas as real estate lending and certain aspects of trust companies' business. Other groups in OSFI have conducted studies on leveraged buyouts and the fisheries industry.

25.35 The Financial Analysis Division spends a considerable amount of its time on ad hoc projects and has not been fully staffed. This has limited its capacity to provide effective support to OSFI's monitoring process. The Division's role needs to be confirmed and a systematic plan of action developed. The Division could provide a valuable support to the examination staff by conducting analysis in such areas as industry-wide interest rate spreads, fee income, non-interest expenses and off-balance sheet exposure of institutions. In addition, the Division could study any developments in the economic environment, domestic or international, that might have implications for the continuing financial health of deposit-taking institutions.

OSFI's newly implemented computerized system is only occasionally used

25.36 In October 1989, OSFI implemented the Institutional Information System (IIS) at an estimated cost of some $400,000. IIS is designed to store and assemble financial information received by OSFI from institutions and other sources. It was expected to be a principal tool for monitoring, but the system is not being used as envisaged. Information from it is not available on a timely basis and in sufficiently disaggregated form to serve most monitoring and examination needs. Its software is slow and awkward to use. Only about 35 percent of potential users, including the examiners, have used the system. Even these have used it only on a few occasions.

25.37 A comprehensive computerized data base on financial institutions, accompanied by appropriate analysis -- the results of which could be used in the monitoring and examination processes -- would assist OSFI in better identifying emerging risks in financial institutions.

Periodic contacts need to be maintained with management of institutions

25.38 OSFI has advised us that its senior officials maintain regular contacts with deposit-taking institutions. In addition, the Regulatory Policy Sector is in contact with the institutions, industry associations and professional bodies. However, in the monitoring process, there is need for the examination staff to make periodic contacts with management of the institutions, to discuss emerging trends or changes in the management structure or corporate policies and to gather information on any developments in the industry or institutions. While the examination staff establishes contacts with the institutions when problems are identified, OSFI does not have a periodic program of contacts. The frequency of contacts would take into account the risk profile of the institutions.

Procedures for troubled institutions are not fully defined

25.39 Responsibility for monitoring troubled institutions is shared by the Registration and Investigations Division and the examination staff, with the former taking the lead role.

25.40 OSFI has not consolidated its procedures for dealing with troubled institutions. Such procedures could cover the progressive enforcement steps needed to ensure compliance with legislation, regulations and guidelines and OSFI's requests for information. Also, there is a need to set out procedures for managing crisis situations relating to deposit-taking institutions.

The importance of effective and timely monitoring cannot be overemphasized.

25.41 The importance of effective and timely monitoring cannot be overemphasized when dealing with the dynamic financial services industry, where an institution's asset and liability profile can change rapidly. OSFI has begun strengthening its monitoring role, including the development of a monitoring checklist, which is being field tested.

25.42 OSFI should improve and systematize its processes for monitoring deposit-taking institutions. In particular, it should:

- **have ready access to a comprehensive computerized data base on deposit-taking institutions;**
- **conduct regular financial analysis of individual deposit-taking institutions to identify emerging risks on a timely basis;**
- **strengthen its processes for conducting studies of system-wide and sectoral issues;**
- **conduct a review of the concept and operations of IIS with a view to assessing the system's design and its adequacy to meet OSFI's needs;**
- **ensure that its examiners maintain periodic contacts with management of the deposit-taking institutions to review their operations; and**
- **consolidate procedures for the investigation of troubled institutions.**

Particular Attention Is Needed to Upgrade the Risk Assessment Process in Annual Examinations

25.43 Legislation governing banks and trust and loan companies requires the Superintendent to conduct annual examinations of individual deposit-taking institutions. There is no legislative requirement for annual examinations of investment companies and the Canadian co-operative credit associations, although OSFI examines their operations periodically.

25.44 The objectives of the examinations are to detect solvency and compliance problems in deposit-taking institutions, and to see that such problems are resolved promptly. Other objectives are to collect information on system-wide and policy issues and to develop a thorough understanding of an institution and its environment. We expected OSFI to have in place policies, procedures and practices for the conduct of examinations to meet these objectives.

25.45 OSFI follows a risk-based approach to examinations. In planning for examinations, it develops risk profiles of institutions and judges the materiality of the risks so that higher risk issues receive greater attention.

25.46 The actions taken by OSFI in using a common framework for the bank and trust and loan company examinations and decentralizing of bank examinations to the regional offices have made the examination process stronger. OSFI has also created a new specialist support division whose function is to assist examiners in the complex areas of treasury instruments and electronic data processing (EDP) systems. It has taken steps to develop and refine methodology for examinations and other supervisory activities. All these point to progress, but there are a number of areas where further initiatives are needed.

Review of specialized risk areas by examiners is weak

25.47 Credit risk is regarded by OSFI to be the major risk to deposit-taking institutions. As such, OSFI gives this risk considerable attention in the examination process. It uses retired financial industry executives in addition to its own staff for the purpose. In recent years, three special areas of risk have been receiving greater attention. These are treasury instruments risk, EDP systems risk and conglomerate risk. Our audit indicated that OSFI's examination process needs to be strengthened in these areas.

25.48 **Examination of treasury instruments risk needs strengthening.** Many financial institutions, particularly banks, deal in treasury instruments such as interest rate and foreign currency swaps, forwards, futures and options contracts. The risks associated with these instruments require adequate internal controls in the institutions to manage them. In turn, the regulators need appropriate procedures to assess the impact of the risks on the institutions' liquidity and solvency.

25.49 We observed that in some cases there was little evidence in OSFI's files to indicate that the examiners had checked the processes for managing treasury risk in the institutions. For example:

- Important aspects of treasury operations were not always dealt with either in the planning or execution of the examinations. Some files contained little evidence that the institutions' processes for setting trading limits in respect of foreign exchange and liquidity exposures had been examined. In one case, although the examination plan identified currency risk and swaps as being key treasury risks in the institution, there was no evidence on file that the examiners had reviewed the risk management process.

- In a few examination files, there was little evidence that controls relating to the "back office" treasury operations of the institutions had been assessed. The back office operation normally records transactions initiated by telephone or other means and sends confirmation to the customer. The effectiveness of the back office treasury operation is critical to monitoring and controlling treasury risk.

25.50 Some members of the examination staff who were examining treasury risks did not have sufficient understanding of treasury instruments and the risks associated with them. We observed that the staff had been given very little training in this area. In some cases, they had carried out such examinations without the assistance of the specialist staff. This was due to the fact that the only specialist on staff did not have time available. For example, the treasury specialist did not participate in the examination of an institution that generated most of its income from trading in off-balance sheet treasury instruments.

25.51 **EDP systems risk is not adequately examined.** Given the significant investment by deposit-taking institutions in EDP technology, and their heavy dependence on it, OSFI has recognized that EDP systems can present a major source of risk to the solvency and soundness of the institutions. OSFI has one specialist in EDP systems of deposit-taking institutions.

25.52 As in the area of treasury risk, OSFI's examination procedures do not cover adequately the review of EDP systems risk and therefore the risk management processes in the institutions are not being fully examined. We found several cases where the EDP systems risk was not identified.

25.53 In some cases there was little evidence of any review having been carried out of processes in institutions for data security, data integrity, disaster recovery and EDP management. For example, in one instance, the risks associated with an institution's outdated EDP systems were not identified and examined.

OSFI does not have authority under existing legislation to seek information from unregulated companies in a conglomerate.

25.54 Many of the examiners did not have an adequate knowledge base to identify and examine EDP systems risk. In the examination of several institutions with extensive and complex EDP systems, OSFI's specialist staff was not involved. At the time of our audit, OSFI was not using any formal procedures for examining EDP systems risk in deposit-taking institutions. However, some procedures have recently been developed and are to be field tested.

25.55 OSFI has difficulty obtaining information it needs to assess conglomerate risk. Conglomerate risk arises when a regulated financial institution is part of a group of companies in which the parent or some of the sister or subsidiary companies are unregulated. In such situations, OSFI has noted a number of concerns in supervising the federally regulated financial institutions, primarily because it does not have authority under existing legislation to seek information from the unregulated companies in a conglomerate.

25.56 In our review of OSFI's files on some financial institutions which are part of conglomerates, we noted how difficult it was for OSFI to adequately identify and assess the risks. For example, it has had difficulty in obtaining access to the business plans of the unregulated parent for the regulated deposit-taking subsidiary.

Assessment of risks to deposit-taking institutions from their securities subsidiaries needs strengthening

25.57 In 1987, the then federal Minister of State (Finance) and the Ontario Minister of Financial Institutions signed an accord with respect to the implementation of their respective regimes for regulating securities-related activities of federal financial institutions and the securities subsidiaries or affiliates of these institutions. According to the accord, OSFI regulates the securities-related activities carried on directly by the federal financial institutions. Such activities are defined in the accord. All other securities activities are to be carried out through the subsidiaries or affiliates, which are regulated provincially. The allocation of responsibilities was clarified and confirmed in correspondence and a memorandum of understanding between OSFI and the Ontario Securities Commission. OSFI has similar memoranda of understanding with the securities commissions of Quebec and British Columbia. However, there are no accords at the ministerial level with these provinces.

25.58 The memoranda of understanding state that OSFI is relying on the system of regulation currently applicable under the provincial securities legislation and the by-laws of the self-regulatory organizations, such as the Investment Dealers Association. The memoranda further state that OSFI is relying, in particular, on the capital adequacy rules governing the securities subsidiaries as specified by the provinces. At the present time, 14 banks and two federally chartered trust companies have securities operations in Canada.

Fourteen banks and two trust companies have securities operations in Canada.

25.59 Our examination of this area was directed at finding out whether OSFI had ensured that adequate mechanisms and controls were in place to insulate federal deposit-taking institutions from inappropriate risks assumed by their securities subsidiaries.

25.60 OSFI has advised us that the provincial regulation of the operations of securities subsidiaries is very complete and the capital rules for high risk activities very onerous. According to OSFI, these help to ensure that the securities subsidiaries do not take inappropriate risks.

25.61 The memoranda permit OSFI to seek information from the commissions about securities dealers after following a specified process. OSFI has identified the regulatory reports it wishes to obtain from the securities commissions. It has not, however, developed any procedures for determining how to use the information it receives to assess risks from securities subsidiaries or how to obtain follow-up information from the commissions. In cases where it has sought these regulatory reports, it has not followed up to ensure that they are provided in a timely fashion. Furthermore, there may be a need to upgrade the knowledge base of the examination staff to enable them to properly assess risks associated with the securities subsidiaries.

25.62 Banks and securities dealers cover certain similar areas. For example, both deal in high-risk treasury instruments such as swaps, options and futures. OSFI can examine such operations directly when they are conducted by banks but not when conducted by securities dealers. OSFI needs to continue to monitor developments in the securities industry and in the regulatory framework applicable to it to ensure that gaps in the regulation and supervision do not occur and that its reliance on provincial regulation is soundly based. Furthermore, in the case of Ontario, OSFI needs to satisfy itself that comparable activities continue to be regulated in a comparable manner as stated in the accord with that province.

CAMEL, a measure of financial soundness, needs elaboration and consistent application

25.63 OSFI uses a rating system known by the acronym CAMEL in examinations and ongoing monitoring of deposit-taking institutions. CAMEL, which stands for capital adequacy, asset quality, management, earnings and liquidity, summarizes the results of the examinations with a five-point rating scale covering the five critical areas of the institution's operations. Institutions are given a rating from 1 to 5 for each CAMEL component, with 1 representing a very healthy condition and 5 representing a critically weak condition. In addition, a composite rating of 1 to 5 is given to each institution, using the individual components as a basis. The system provides a ready reference to the performance of a financial institution and is designed to give management an indication of the level of monitoring and scrutiny needed. CAMEL is also used as a guide for transferring the lead responsibility for institutions warranting closer monitoring from the examination staff to the Registration and Investigations Division.

25.64 The essence of the system is that the ratings should be meaningful and consistent. In some cases, however, they were not, judging by the evidence in OSFI's files. The examiners were not provided with detailed criteria for arriving at the rating, or training in applying the criteria. There was therefore no assurance that individual examiners would rate all the institutions they examined in a consistent manner, or that different examiners would use a consistent approach. Furthermore, the ratings given by the examiners did not receive rigorous review by management.

25.65 OSFI should improve its processes for assessing risks to the solvency and soundness of deposit-taking institutions. In particular it should:

- **ensure that the specialized expertise and knowledge base needed for assessing treasury instruments and EDP systems risks are available and used as appropriate;**
- **fully implement its procedures for assessing risks to federally regulated deposit-taking institutions from the operations of their securities subsidiaries; and**
- **develop detailed criteria for the CAMEL rating system for financial soundness in order to facilitate consistent ratings by all examination staff.**

Extent of Reliance on External and Internal Auditors Is Unclear and Sometimes Unsupported

25.66 External auditors. In carrying out examinations of deposit-taking institutions, OSFI places a high degree of reliance on the external auditors' work. It exchanges letters annually with external auditors to inform them that it will be relying on their examination and opinion on the financial statements of the institutions. OSFI's Examination Framework requires the examiners to review the work of external auditors to "determine the extent and nature of the work done by the external auditors particularly in areas identified as high risk by the Office, in order to assess the Office's basis for reliance on the auditors' work".

25.67 In our audit, we checked to see whether adequate procedures were in place to ensure that the scope of OSFI's reliance on the work of the external auditors was soundly based.

25.68 The primary responsibility of the external auditors is to report to the shareholders of the institutions on the fairness of their financial statements at a point in time. On the basis of its review, OSFI may properly rely on the external auditors' work with respect to those statements. However, we believe that OSFI needs to satisfy itself independently that all major risk areas are being managed effectively.

25.69 The Bank Act requires the external auditors to report to OSFI any transactions or conditions affecting the well-being of a bank that, in their opinion, are not satisfactory and require rectification. However, they are not obliged to extend the scope of their audit of the financial statements to specifically search for such transactions or conditions. The Bank Act specifically permits the Minister to enlarge or extend the scope of the auditors' examination and may require that the auditors of a bank report to the Minister on the adequacy of the procedure adopted by the bank for the safety of its creditors and shareholders. This provision has been used in a limited number of cases. There are similar provisions in the legislation governing trust and loan companies.

25.70 The external auditors' objectives in carrying out a shareholders' audit are in some respect different from those of OSFI. In addition to satisfying itself as to the fairness of the financial statements at a point in time, OSFI needs to satisfy itself that all major risks in an institution are being effectively managed on an ongoing basis by the institution. External auditors' perspective may also be different from OSFI's in such areas as management controls, asset quality and materiality of risks.

25.71 We observed that OSFI satisfied itself independently on asset quality of financial institutions. However, we identified several cases in other risk areas, such as treasury instruments, where OSFI carried out little independent work itself but relied on external auditors.

25.72 Also, although OSFI's Examination Framework requires that before placing reliance on external auditors, the examiners must assess their work, this was not always done. Several examination files contained little evidence of such an assessment. In a number of cases, we could not identify the specific areas of risk in which reliance was being placed. In some areas of risk where reliance was in fact placed, there was no indication how it had affected the scope of the examiner's own work.

25.73 **Internal auditors.** A properly designed internal audit provides management of a deposit-taking institution with an independent, systematic review and appraisal of the effectiveness of management and internal controls in the institution. Internal audits are conducted on specific activities of the institution and reports are made to management on the activities reviewed.

25.74 OSFI requires its examiners to review the procedures and working papers of the internal auditors as a basis for reliance on their work. We observed that OSFI's reliance on internal audit is in several cases based on the external auditors' examination of the internal auditors' work. As noted earlier, the objectives of OSFI and those of external auditors may be different. The perspective from which the external auditor reviews the work of internal audit, including internal controls, may not be fully suitable for OSFI's purposes.

25.75 In reviewing the work of internal auditors, OSFI focusses on the internal audit reports prepared during the year and discussions with the internal audit staff on their audit plans and coverage. In the majority of the cases we examined there was little evidence of review of internal auditors' working papers or assessments of whether they had covered all significant internal controls in a given year. Thus, there was limited assurance that the steps necessary to establish reliance on the work of internal auditors were carried out.

25.76 **OSFI should:**

- **ensure that its position on reliance on external auditors reflects the differences in responsibilities and perspectives of the auditors and OSFI; and**
- **clarify and document its procedures and practices for reliance on external and internal audits to ensure that the reliance is soundly based.**

More Complete Examination of the Canadian Payments Association Is Needed

25.77 The Canadian Payments Association (CPA), created by an Act of Parliament, has the mandate to establish and operate a national clearing and settlement system and to plan the evolution of the national payments system. About 9 percent of the fund transfers of deposit-taking institutions are carried out by its members electronically through CPA. According to OSFI, some 8 to 12 percent of the assets of banks are turned over daily through CPA.

Some 8 to 12 percent of the assets of the banks are turned over daily through the Canadian Payments Association.

25.78 Settlement risk is a risk that a party to a financial transaction will fail to honour its obligations, due to financial, technical or operational problems relating to the settlement or finalization of the transaction. This type of risk is inherent in the operations of deposit-taking institutions as well as in those of CPA, to which most of them belong.

25.79 The Canadian Payments Association Act requires OSFI to conduct such examination of the Association as it thinks necessary to enable it to report to the Minister of Finance whether or not the Association is operating in conformity with its Act and the by-laws.

25.80 In examining CPA, OSFI uses a checklist that covers such areas as review of CPA's board at directors' minutes and of the conduct at annual meetings of CPA members. To date it has not reviewed the risk areas and the controls CPA has in place over the various systems. No examination has been carried out of the risks associated with CPA's EDP system and its links with the regional data centres of the financial institutions involved. This would include consideration of back-up and contingency plans. OSFI has not carried out a review of CPA's planning for the evolution of the national payments system despite the revolutionary changes taking place in the industry, including electronic banking. In late 1989, the Deputy Superintendent, Deposit-taking Institutions wrote to CPA advising it that OSFI intends to carry out a more comprehensive examination covering the above areas.

25.81 OSFI should conduct a full-scope examination of CPA.

Compliance by Institutions with Legislation Is Not Being Appropriately Tested

25.82 The Examination Framework calls for appropriate testing of compliance by institutions with applicable legislation, regulations and guidelines. It requires that all detected problems be documented and handled in a manner consistent with their importance and materiality. Our review was aimed at determining whether adequate procedures were in place to verify testing for such compliance.

25.83 OSFI verifies compliance with the capital adequacy rules governing deposit-taking institutions. Its Registration and Investigations Division tests compliance with the requirements of the Bank Act in areas such as particulars of directors and officers and insider reports. The Rulings' Division of OSFI carries out some testing of compliance in the course of rendering rulings. In addition, OSFI has a systematic process in place for testing compliance by trust and loan companies with key sections of the relevant legislation and supervisory rules.

25.84 For banks, however, OSFI examiners carried out limited verification of their own but relied on the external auditors. As it stands, the external auditors are not specifically required to verify compliance with the legislation under the terms of their arrangements with OSFI. Their only obligation is to report to OSFI if they encountered any conditions in the course of their audit which, if unaddressed, could affect the well-being of the bank or which were beyond the powers of the bank. Verification of compliance for the deposit-taking institutions was divided between Ottawa and regional offices. There was a lack of clarity among staff about the areas being checked at different places.

25.85 With respect to banks, subsection 246(3) of the Bank Act requires OSFI to report to the Minister whether the provisions of the Act having reference to the safety of the interests of the depositors, creditors and shareholders and other provisions of the Act are being duly observed. These "other provisions" cover matters such as business powers, corporate structure and financial disclosure. We noted that while OSFI reports to the Minister on whether the institutions are in a sound financial position, it has failed to specifically report on the provisions of the Act having reference to the safety of depositors and on the "other provisions" of the Act.

25.86 OSFI should improve its procedures for testing compliance by deposit-taking institutions with the applicable legislation, regulations and guidelines. The annual reporting to the Minister on the banks should cover all elements required under subsection 246(3) of the Bank Act.

Improved Co-ordination Is Needed with CDIC and Provincial Regulators

25.87 In its examination and monitoring activities, OSFI needs ongoing contact with CDIC and provincial regulatory bodies. We expected OSFI to maintain effective relationships with these organizations with a view to harmonizing supervisory standards and obtaining information as necessary.

There is no memorandum of understanding with CDIC

25.88 The Canada Deposit Insurance Corporation Act designates OSFI to examine, on CDIC's behalf, all banks and federally regulated trust and loan companies. In addition, CDIC has appointed OSFI to conduct examinations of provincially regulated trust and loan companies that are members of CDIC, except those regulated by Quebec. After completing an examination, OSFI is required to report to CDIC on whether the operations of the institution are being conducted in accordance with the standards of sound business and financial practices, and on whether the institution is in a satisfactory financial condition. OSFI also reports on whether the Return of Insured Deposits submitted by an institution is correct. As well, CDIC relies on OSFI to carry out ongoing monitoring of all banks and federally regulated trust and loan companies.

25.89 In spite of the reliance CDIC places on the work of OSFI, and the distinct statutory responsibilities each has under its respective Act, there is no memorandum of understanding setting out the responsibilities and obligations of the parties. Such a memorandum could cover sharing of information on institutions, handling of troubled companies, and the extent and depth of monitoring needed. OSFI advised us that while considerable discussion has taken place with CDIC, the matter is not close to completion.

25.90 The Canada Deposit Insurance Corporation Act requires the examiner to report on the correctness of the Return of Insured Deposits. We found that the nature and extent of verification done by OSFI was insufficient to meet this requirement. The verification was usually limited to a comparison of amounts in the returns with those in the relevant ledgers of the institution, rather than more substantive testing. We were informed that OSFI and CDIC are in the process of finalizing a comprehensive verification program.

Co-ordination of supervisory activities with provincial regulators is limited

25.91 In a corporate group, some financial institutions may be federally regulated while others are under provincial jurisdiction. There are also situations where a federally regulated company may be subject to monitoring or examination by provincial regulators. OSFI has indicated that its objective is to achieve a consistency in supervisory approaches with its provincial counterparts and to avoid gaps in the supervisory system.

25.92 Several provinces have recently made changes to their trust and loan legislation. For example, Ontario's legislation now calls for an "equals approach" where all trust and loan companies operating in Ontario, regardless of the jurisdiction of their incorporation, are subject to Ontario's supervisory rules. To ensure that there are no gaps in the supervisory system and to reduce the regulatory burden on the companies, there is need for consistency of supervisory approaches and co-ordination of activities.

25.93 Areas where co-operation would seem to be desirable include rationalization of information demands on financial institutions and reduction of information burden. It is not uncommon for a deposit-taking institution to submit information returns to half a dozen jurisdictions when much of the information required is very similar. Other areas include co-ordination of activities in dealing with troubled institutions and reliance by one regulator on the examination and monitoring of institutions carried out by the other.

Areas where co-operation among regulators would be desirable include rationalization and reduction of information demands on financial institutions.

25.94 OSFI has stated that, for examinations of a federal institution forming part of a corporate group containing provincially regulated companies, it will try to co-ordinate work with provincial regulators so that the examinations are conducted at the same time.

We noted that such co-ordination had not taken place.

25.95 OSFI should:

- **enter into a memorandum of understanding on co-ordination of activities with CDIC as quickly as possible; and**
- **co-ordinate, as appropriate, supervisory roles with the provincial regulators and achieve consistency in approaches for supervision.**

Regulatory Policy Sector

25.96 Our examination focussed on whether OSFI had adequate procedures for developing regulatory policy, conducting corporate planning and professional development, and rendering rulings on the interpretation of legislation, regulations and guidelines.

Procedures for Developing Regulatory Policy and Rendering Rulings Are Generally Satisfactory

25.97 We observed that OSFI's policy research and rulings activities are generally well organized. Priorities are assigned for the completion of research projects and there is a regular reporting system on their level of completion. However, there are some 50 issues for study currently outstanding and most of them have not been assigned target dates for completion. It is important that OSFI reviews the progress on these issues periodically to ensure that they are dealt with on a timely basis.

25.98 OSFI has made considerable progress in consolidating its rulings activities concerning both deposit-taking and insurance and pensions sectors in one operational unit. It is in the process of establishing a comprehensive record of all rulings given in the past so that they can serve as a basis for ensuring consistency in future rulings.

A Positive Start Has Been Made in Corporate Planning and Program Review

25.99 OSFI has taken initiatives to translate its legislative mandate into operational objectives and goals. It has developed a strategic planning framework. While the framework is not yet fully implemented, OSFI has recently for the first time developed a strategic plan that identifies its mission, goals and responsibility centres for achieving the goals. OSFI also produces business plans for its various operating units. While these are important steps in the corporate planning process, OSFI still has some way to go in integrating business plans with strategic objectives and ensuring that the plans are used as a management tool for monitoring the performance of operating units against established objectives.

Good progress has been made in strategic planning.

25.100 OSFI has recently taken the positive step of establishing a program review function responsible for program evaluation and internal audit. The terms of reference of the function are being developed. A properly constituted and independent program review unit can serve as a useful management tool in the effective implementation of OSFI's mandate.

Professional Development and Training Need Strengthening

25.101 We examined OSFI's procedures and practices for the professional development and training of its staff to ensure that sufficient and properly qualified personnel were available to carry out its mandate.

25.102 OSFI has taken a number of initiatives in the area of training and professional development, including establishment of a professional development and training policy and drafting of knowledge and skills requirements for examiners.

25.103 We observed that the roles and responsibilities for training and professional development are split between line managers and two staff divisions of OSFI. This has resulted in unclear accountability and some duplication of activities. Some employees are uncertain about appropriate contacts for requesting training. Further, OSFI has not yet developed an overall training plan, although it has recently established a committee to co-ordinate training and development activities, develop procedures and recommend training priorities.

At the time of our audit, most examiners had not received formal training in key operational and examination areas.

25.104 Identification of training needs is done primarily through the employee performance appraisal process. However, in deciding on the training requirements of their staff, some managers have not considered OSFI's established guidelines on knowledge and skill requirements for examiners or the special operational requirements of their own units. Instead, there is a reliance on informal on-the-job training. It is not known which employees need formal training in critical operational and examination areas, such as the risk-based approach to examinations, treasury instruments risk, EDP systems risk, management practices of institutions and application of the CAMEL approach. At the time of our audit most examiners had not received formal training in these areas. Furthermore, there is only a limited review of the training requirements identified by managers to determine whether the training proposed is in line with OSFI's strategic objectives and priorities.

25.105 As a result, there is a need to determine training requirements better, establish training plans and priorities, and provide organized and more formal training in appropriate areas of the examination and monitoring processes.

25.106 **OSFI should give immediate attention to developing its training plans and providing the necessary training to its staff. It should also review the roles and responsibilities of the various groups engaged in professional development and training with a view to achieving better co-ordination of activities and more focussed accountability for the planning and execution of training.**

Management Services Sector

25.107 We examined whether OSFI's procedures relating to human resource management, information and personnel security and conflict of interest were adequate to meet its personnel requirements and to prevent conflict of interest and undue disclosure of information.

Progress Has Been Made in Human Resource Management

25.108 OSFI has developed, but not fully implemented, a human resource management framework for the various activities undertaken to identify the personnel needs of the organization, compare these needs with the available resources and develop action plans to provide for any unmet needs. It has developed and implemented a variety of personnel-related programs such as those for performance review and appraisal, recruitment and exit interviews. While OSFI has some further tasks ahead of it in such areas as integrating human resource planning with strategic business plans, it has made reasonable progress in establishing a unified personnel service after the merger in 1987 of the two previously separate organizations.

Security and Conflict of Interest Practices Require Improvement

25.109 OSFI receives and produces sensitive information on financial institutions and on government policies, which must be safeguarded against major risks. Similarly, the potential for improper use of such information requires that appropriate rules be adopted and implemented to prevent conflict of interest situations.

25.110 OSFI has recently put in place policies for conflict of interest and for information and personnel security. However, we saw no evidence that the establishment of these policies was accompanied by a comprehensive threat and risk analysis. Such an analysis would have permitted proper assessment and implementation of protective measures needed to meet operational requirements. OSFI has advised us that a threat and risk analysis in respect of conflict of interest was carried out but not documented.

25.111 We observed several deficiencies in the areas of information and personnel security. For example, the procedures in place did not ensure proper security classification of documents and did not limit access to authorized persons only. Furthermore, OSFI did not have any system in place to carry out periodic security and conflict of interest reviews to identify any weaknesses and departures from the established policy.

25.112 While there have been no known conflict of interest situations or breaches of security, without a properly executed and documented threat and risk analysis of OSFI's operations there can be no assurance of the adequacy of its procedures. An improper use of sensitive information might not only prejudice the competitive position of financial institutions but also cause serious embarrassment to OSFI and the government.

25.113 OSFI should:

- **conduct a comprehensive threat and risk assessment of its operations to identify vulnerabilities and implement proper procedures for ensuring that the security of information is protected;**
- **complete its processes for conducting and documenting threat and risk assessment in respect of conflict of interest; and**
- **carry out periodic reviews of its policies and procedures to ensure their continuing adequacy.**

Office of the Superintendent of Financial Institutions Canada
Bureau du surintendant des institutions financières Canada

Ottawa, Canada
K1A 0H2

20 August 1990

Mr. Kenneth M. Dye
Auditor General of Canada
240 Sparks Street
Ottawa, Ontario
K1A 0G6

Dear Mr. Dye:

I appreciate this opportunity to respond to the findings and recommendations in your chapter concerning the Office of the Superintendent of Financial Institutions. I and my staff agree generally with the recommendations that you have made. As you know, work is well under way to complete implementation in most cases; in other areas, we have incorporated your recommendations into our planning documents.

Since our Office's inception in 1987, we have been taking many steps to improve the effectiveness of the supervisory framework for the institutions we supervise and regulate. Although we have made significant progress, we agree with your auditors that there are documentation problems and we are addressing them appropriately.

I am confident that our examiners have the information we need to detect any significant emerging problems in the federal financial institutions that we supervise. We will continue to be in regular contact with those institutions and with the other regulatory bodies with which they deal. And we will continue to work closely with internal auditors, external auditors, compliance officers and managers of financial institutions with a view to contributing to a strong financial system in Canada.

Yours sincerely,

Michael A. Mackenzie
Superintendent

Canada

26

Royal Canadian Mounted Police

Federal Law Enforcement

Royal Canadian Mounted Police

Federal Law Enforcement

Main Points

26.1 In drug enforcement, there is no formal agreement or joint planning between the RCMP and Canada Customs. They follow different strategies at ports of entry and are unable to co-operate fully, which may impair the ability to disrupt large-scale drug operations (paragraphs 26.32 to 26.42).

26.2 Both the RCMP and Canada Customs have responsibility for enforcing the Customs Act. However, although there is a signed agreement, they operate as two independent, separate enforcement agencies for the same Act (26.49 to 26.56).

26.3 The RCMP needs to improve its interdepartmental relationships by having:

- agreements that define respective roles and responsibilities;
- joint planning processes that determine unified enforcement strategies, goals and priorities as well as resource levels and performance standards; and
- regular feedback on performance to client departments (26.26).

26.4 The RCMP has not resolved longstanding deficiencies in its management information systems. The systems are unable to provide RCMP management and client departments with essential performance data (26.90 to 26.94).

26.5 The RCMP's customs and excise and economic crime programs have been affected by a high personnel turnover. One effect of excessive turnover is the lack of job-specific experience, cited by the RCMP as the main complaint of client departments (26.95 to 26.101).

26.6 Numerous studies over the last 15 years have identified, but failed to rectify, various deficiencies in the federal law enforcement system in Canada. The RCMP's effort will resolve some of the issues. However, many fundamental problems, such as the need to clearly define the RCMP's role, still exist. These will require either direction or intervention by the government (26.109 to 26.115).

Table of Contents

Paragraph

Introduction 26.7

Audit Objective and Scope 26.11

Background 26.13
Jurisdictional overlap is inherent (26.15)
Regulatory programs and enforcement strategies are changing (26.19)
How can the RCMP be more responsive? (26.24)

Audit Observations and Recommendations by Program 26.27

Drug Enforcement Program 26.28
Conflicts between the RCMP and Canada Customs (26.32)
Difficulties in implementing proceeds of crime legislation (26.43)

Enforcement Services Program 26.48
Conflicts in enforcing the Customs Act (26.49)
Enforcement of the Immigration Act (26.59)
Relations with Canadian Wildlife Service need improvement (26.64)

Economic Crime Program 26.71
Enforcement of the Bankruptcy Act (26.73)

Audit Observations and Recommendations by Management Function 26.79
Law enforcement agreements need to be revised or updated (26.79)
Program planning does not clearly define clients' needs (26.85)
Management information systems need to be improved (26.90)
High turnover affects delivery of certain programs (26.95)
Audit effort needs redirection and clarification (26.102)

Reporting to Parliament Is Fragmented and Incomplete 26.106

Longstanding Problems Cannot Be Resolved by the RCMP Alone 26.109

Exhibits

26.1 Resource Allocation (in person-years)
26.2 Federal Law Enforcement (000's of hours)
26.3 Case Illustration

Royal Canadian Mounted Police

Federal Law Enforcement

Introduction

26.7 To much of the world, the Royal Canadian Mounted Police (RCMP) represents what is inherently Canadian. The RCMP tradition goes back to 1873 and, since that time, the RCMP has become essential to maintaining the Canadian ideal of "peace, order and good government".

26.8 Today, with over 20,000 people and a budget of more than $1.5 billion, the RCMP is Canada's largest police force. Its responsibilities fall into four broad areas:

- providing police services on a contract basis in eight provinces, two territories and 191 municipalities;
- enforcing federal statutes;
- protecting federal government facilities and Canadian and foreign dignitaries; and
- providing the Canadian law enforcement community with a range of specialized services such as criminal records, forensic examinations, fingerprint identification and police training.

26.9 The RCMP's federal law enforcement activities are carried out by a headquarters staff in Ottawa and 13 field divisions which correspond to the 10 provinces, the two territories and the National Capital Region. Generally, federal law enforcement policy is developed at Headquarters by three Program Directorates -- Drug Enforcement, Economic Crime and Enforcement Services -- and then implemented by the Divisions.

26.10 Exhibit 26.1 shows the total resources for the RCMP; the Force had 3,887 person-years assigned to federal law enforcement in 1989/90. Exhibit 26.2 shows how the RCMP distributes its federal law enforcement efforts among different programs. Drug enforcement accounts for more than 50 percent of total hours reported. The enforcement of legislation related to Customs and Excise, Immigration and Passport, Income Tax and Economic Crime accounts for another 30 percent of the workload. The remaining 20 percent is distributed over other statutes.

Audit Objective and Scope

26.11 The objective of the audit was to determine whether the RCMP has the necessary management systems and practices in place to permit it to carry out its federal law enforcement activities efficiently and effectively and in a manner that is responsive to the needs of federal departments and agencies that require its services.

Exhibit 26.1

RESOURCE ALLOCATION
(IN PERSON-YEARS)

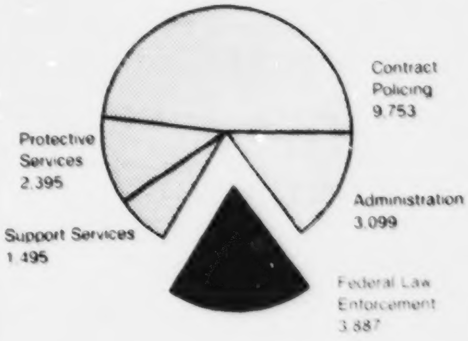
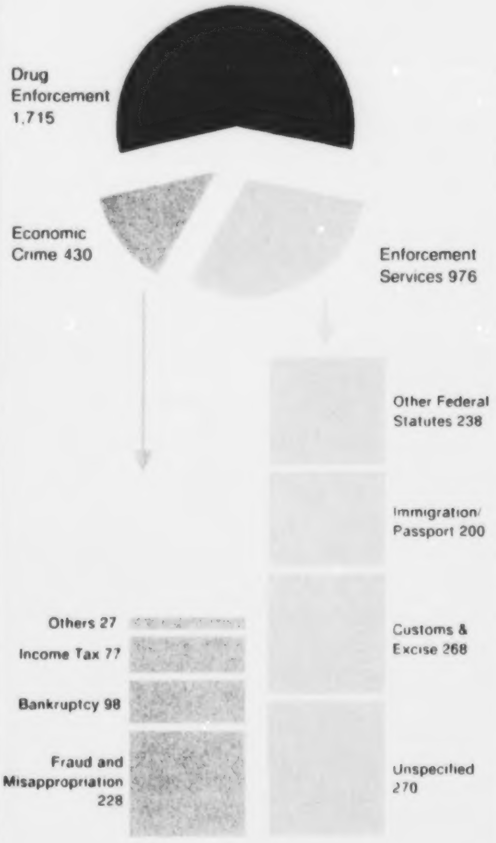


Exhibit 26.2

FEDERAL LAW ENFORCEMENT (000'S OF HOURS)



26.12 The audit focussed on the major elements of federal law enforcement: the Drug Enforcement Program; the enforcement of the Customs Act, the Immigration Act, the Migratory Birds Convention Act and the Bankruptcy Act. We also examined certain aspects of RCMP internal management such as planning, management information systems and the review and audit function as they relate to federal law enforcement.

Background

26.13 Federal law enforcement involves detection, investigation and -- when offences against federal statutes occur -- either administrative sanction or criminal prosecution. Enforcing federal statutes is an enormous undertaking; more than 150 statutes must be enforced and more than 40 enforcement entities are involved.

26.14 The RCMP actively enforces about 50 of these statutes and its role is unusually complex. A number of factors contribute to this complexity, but two of the most important are (i) overlapping jurisdictions, which lead to uncertainty, and sometimes conflict, over the respective roles and responsibilities of the RCMP and departments in enforcing statutes; and (ii) the changing nature of regulatory programs and enforcement strategies. Both factors are discussed below to provide a context for understanding the RCMP's role in enforcing federal legislation

> *More than 150 statutes must be enforced and more than 40 enforcement entities are involved.*

Jurisdictional overlap is inherent

26.15 The RCMP derives its mandate for enforcing federal statutes from both the RCMP Act and its related regulations. In some cases, such as the Customs Act, the RCMP derives its mandate by being named specifically in the act. Section 18 of the RCMP Act states that "it is the duty of the members of the Force who are peace officers ... to perform all duties that are assigned to peace officers in relation to the preservation of the peace, the prevention of crime and of offences against the laws of Canada ...". Section 17(a) of the Regulations states: "it is the duty of (the Force) to enforce all Acts made by the Parliament of Canada and Regulations made thereunder, and to render such assistance to departments of the Government of Canada".

26.16 Although the RCMP Act gives the Force an across-the-board duty to enforce all federal laws, the ultimate responsibility for administering any given statute rests with a Minister of the Crown. The department reporting to that Minister is responsible for administrative and regulatory functions, including enforcement. On the other hand, the RCMP has the responsibility to deal with criminal offences.

No government policy clearly defines where the jurisdiction of a department ends and the jurisdiction of the RCMP begins.

26.17 Problems occur because the boundary between regulatory and criminal offences is blurred. There is no government policy defining clearly where the jurisdiction of a department ends and the jurisdiction of the RCMP begins.

26.18 Various agreements and "understandings" have developed over the years between the RCMP and federal departments to define their respective roles and responsibilities. These agreements or understandings usually entail investigations by the RCMP of suspected criminal offences against federal statutes. However, in some instances, they require the RCMP to become involved in administrative or regulatory functions that departments choose not to, or are unable to, perform themselves. In some remote communities, where the RCMP is often the only federal presence, it has become the de facto administrator for most federal statutes.

Regulatory programs and enforcement strategies are changing

26.19 Historically, the RCMP has been the key and often the only player in enforcing federal laws. However, over time, as Canadian society has become more complex, more federal laws have been enacted, more federal regulatory agencies have been created, and more departments and agencies have become involved in enforcement activities.

26.20 In the late 1970s, growing public concern over regulatory burden led to a strong interest in regulatory reform in Canada. In response, through various initiatives, the government has tried to both eliminate obsolete, contradictory or duplicative regulations, and introduce reforms to make individual regulatory programs operate more efficiently and effectively.

26.21 Parallel with regulatory reform, federal departments have begun to examine the cost-effectiveness of various strategies for fostering maximum compliance such as education and self-regulation. They have also explored methods, other than criminal prosecution, for dealing with non-compliance. These methods include administrative sanctions and civil remedies. In exploring these options, departments have had to re-examine their own roles vis-a-vis that of the RCMP which has traditionally focussed on criminal prosecution as its key enforcement strategy.

26.22 As regulating departments have adjusted their enforcement roles, priorities and strategies, the RCMP has had to make appropriate adjustments, to both reduce duplication or gaps, and to maintain the integrity of federal law enforcement. For example, in 1976, when amendments to the Combines Investigation Act increased the scope of responsibility for the Department of Consumer and Corporate Affairs, the RCMP reduced its effort in that area. Similarly, when the Department of National Revenue - Customs created its drug teams in 1984, the RCMP's role at ports of entry was greatly affected.

26.23 Other factors affect the way the RCMP discharges its federal law enforcement duties. First, the RCMP has to meet the individual needs of different federal departments. It also has to reconcile its mandate for enforcing federal laws with the demands of other RCMP mandates. For

Saisie d'héroïne à Mirabel :
25 MILLIONS
RCMP probes scams
Task force to check immigration 'deals'
RCMP probes travel claims
External Affairs
VIRUS-BUSTERS
RCMP's crack
Tipoff leads police to massive drug haul
Spooked smugglers
Kamloops man guilty in $1.3M oil fraud
Des tonnes de marijuana importées de Jamaïque
UNE VINGTAINE D'ARRESTATIONS
My stomach feel
Drug profits target of new law
Undercover work clips wings of exotic bird smugglers

The RCMP enforces a large number of federal statutes (see paragraph 26.14).

example, the RCMP had to divert significant resources from federal law enforcement to protective policing after several national and international security incidents in 1985. During a time of restraint, the RCMP's priorities may not always meet the expectations of all federal departments.

How can the RCMP be more responsive?

26.24 The overlap in responsibilities and changes in regulatory programs and enforcement strategies described above have opened the door for conflicts between the RCMP and departments. To minimize the opportunities for these conflicts to occur, the RCMP needs to promote co-operation and co-ordination between itself and its "client" departments.

26.25 The Commissioner of the RCMP recognized this need. In his 1987 Directional Statement, the Commissioner said that he:

(i) considered federal departments as clients;

(ii) wanted to provide effective, professional enforcement services to meet their needs; and

(iii) would improve the Force's information systems to better account to client departments and central agencies.

26.26 More specifically, we would expect to see the following processes and practices that could both help the RCMP to better respond to the needs of the departments who use its services, and foster a more co-operative relationship with them:

- interdepartmental agreements that clearly define the roles and responsibilities, program objectives and enforcement policy, and mechanisms to promote inter-agency co-operation, communication and co-ordination;

- a planning process that involves client departments in determining enforcement strategies and priorities, projected workload, resource levels and performance standards;

- assigning resources and providing supervision and direction that ensures effective implementation of agreed-upon enforcement plans;
- systems and procedures that provide regular feedback on performance to RCMP management and its client departments; and
- periodic audits and evaluations to ensure that the RCMP's activities are meeting the needs of the departments.

Audit Observations and Recommendations by Program

26.27 In this section, we present our audit observations and recommendations as they relate to the RCMP's three federal law enforcement programs. The common observations are then summarized in the next section - "Audit Observations and Recommendations by Management Function".

Drug Enforcement Program

26.28 The use of narcotics and other dangerous drugs remains a serious problem in Canada. Two federal statutes govern illicit drugs: the Narcotic Control Act and the Food and Drug Act. Both are the responsibility of the Department of National Health and Welfare. They regulate possession, trafficking, importation or cultivation of heroin, cocaine, cannabis and various other narcotics.

26.29 In 1987, to combat a growing drug problem in Canada, the federal government announced its National Drug Strategy. The Strategy called for simultaneous and concerted actions by all departments involved. The Department of National Health and Welfare was designated as the lead agency with other federal departments (including the RCMP) participating in various activities to reduce the demand and control the supply of illicit drugs.

26.30 The RCMP has devoted considerable attention and resources to implementing an effective drug enforcement program. These resources include more than 1,000 full-time drug enforcement officers supported by another 500 staff who do drug intelligence and surveillance work.

26.31 In recent years, as other police forces have become more involved in drug enforcement, the RCMP has developed co-operative relationships with them through joint force operations. The total rose from 19 in 1987 to 40 in 1990. In addition, the Department of National Defence and the Canadian Coast Guard assisted the RCMP in launching a coastal enforcement program. This program is aimed at combatting the importation of drugs by way of Canada's coastal waters. The RCMP also operates a drug awareness program. In co-operation with provincial addiction agencies, the Canadian Association of Chiefs of Police and other provincial and federal departments, it works to raise public awareness of drug laws and the harmful effects of drugs on individuals, families and communities. The RCMP also has joint force operations with Canada Customs.

Conflicts between the RCMP and Canada Customs

26.32 At border points, the RCMP and the Department of National Revenue - Customs (Canada Customs) work together to combat the importation of illegal drugs into Canada. However, since 1984, there have been a number of areas of conflict between them.

26.33 A 1983 agreement between the RCMP and Canada Customs outlines their respective roles and responsibilities in enforcing various federal laws. After Canada Customs introduced its drug teams at major ports of entry in 1984, the two agencies began to negotiate an agreement specifically covering their drug enforcement activities. However, despite the fact that they have been trying to resolve a jurisdictional dispute, they have not been able to reach an agreement. The relationship has been strained and has resulted in ongoing difficulties in operations.

The RCMP making a large marijuana crop seizure in B.C. (see paragraph 26.30).

26.34 An Ontario District court ruling in 1988 noted these difficulties. The Judge expressed concerns that "... the conflicts that exist between the two groups . . . (have) no place in the investigation of crime".

26.35 These conflicts concerning roles and responsibilities occur on a number of fronts: information sharing, intelligence gathering, co-operation at ports of entry, inland investigation, international liaison, and public recognition of drug seizures. These problems bear directly on the effectiveness of drug enforcement in Canada. The following paragraphs illustrate just one example of what can happen in the absence of an agreement between the two drug enforcement agencies.

26.36 Illegal drugs enter Canada in a number of ways. For example, they may be hidden in cargo shipments or carried in by expendable "couriers". When drugs are detected at ports of entry, it is often more effective to target the importers rather than simply arrest the couriers. A technique called "controlled delivery" which allows illegal drugs to be delivered under carefully controlled conditions is often used for this purpose.

26.37 In making a controlled delivery, timing is critical. Plans have to be put into action as quickly as possible because, if a courier fails to deliver drugs promptly, the delay may alert and frighten off the importers. However, since Canada Customs established its drug teams in 1984, the RCMP has had concerns about the length of time that Canada Customs has taken to transfer cases to them.

In making a controlled delivery, timing is critical.

26.38 This situation occurs because Customs procedures require its officers to perform certain duties such as baggage searches, personal searches, preserving evidence, questioning suspects to determine additional drug traffickers involved while staying within the Charter of Rights and Freedoms requirements, and completing seizure documents.

26.39 We reviewed all 1989 drug case files at Toronto and Mirabel airports and calculated the average elapsed time between the point at which Canada Customs initially detected drugs, and the point at which it handed suspects over to the RCMP. These averages were 105 minutes for Toronto and 110 minutes for Mirabel. The RCMP stresses that to catch drug "king pins", these delays are not acceptable. Exhibit 26.3 illustrates what can occur.

26.40 We also found that only a few controlled deliveries have been attempted at these two airports. The RCMP told us that it could have attempted more of these controlled deliveries if Canada Customs had involved them as soon as the drug had been detected. On the other hand, Canada Customs has indicated that some of the problems, such as the availability and response time of the RCMP, are outside of its control.

26.41 The origin of the difficulty with controlled deliveries is that the two agencies do not agree on which of them is responsible for continuing an investigation once drugs are detected at ports of entry. Canada Customs

Exhibit 26.3

CASE ILLUSTRATION

Clock	Time Since Drugs Detected	Event
21h30		A passenger arrived at a Canadian airport from overseas.
22h35		Canada Customs detected a quantity of drugs.
00h14	99 minutes	Canada Customs completed its required procedures and handed the case over to the RCMP.
Later		The suspect told the RCMP that the drug was destined for another city, where it was to be delivered to an importer. The suspect was co-operative. However, the last connecting flight had already left at 23h45 which eliminated the best conditions for attempting a controlled delivery.

believes that it has the jurisdiction under the Customs Act to continue its investigation, while the RCMP contends that once drugs are detected, the cases become Narcotic Control Act offences and should be transferred immediately to the RCMP for investigation. However, as mentioned earlier, the difficulty with controlled deliveries is just one facet of the jurisdictional conflict between the RCMP and Canada Customs.

26.42 The RCMP and Canada Customs should develop an agreement that clearly defines their respective roles and responsibilities in drug enforcement at ports of entry, inland and internationally, and for intelligence gathering and sharing, and public recognition.

***RCMP response**: Agree in principle. A constructive step would be to clarify and incorporate into an agreement the respective roles and responsibilities of the two agencies not only under the Narcotic Control Act and the Food and Drugs Act but under the Customs Act as well, so that the difficulties both agencies have experienced in the past can be finally resolved.*

***Canada Customs response**: Steps have already been taken by both organizations to address these issues.*

Difficulties in implementing proceeds of crime legislation

26.43 In 1981, the RCMP established an Anti-Drug Profiteering Program. Its purpose was to seize the illegal gains from drug traffickers and thereby reduce their ability to engage in trafficking. In 1987, the Government introduced Bill C-61 to further facilitate the freezing, seizing and forfeiture of proceeds of crime. This new "Proceeds of Crime" legislation was proclaimed in January 1989 and made it possible to seize assets such as money in bank accounts, real property or actual businesses.

26.44 During the first year of implementation, the RCMP was able to seize $37 million of suspected illegal drug assets (mainly cash and bank accounts). However, the government could have seized several millions of dollars more of other assets such as real property and actual businesses, had the federal departments involved been able to put the necessary administrative provisions in place earlier.

26.45 Effective implementation of this legislation requires the federal departments involved (the Department of National Health and Welfare, the Department of Justice, the RCMP and the Treasury Board) to resolve a number of issues, such as:

- responsibility, policy and procedures for managing seized assets;
- additional resources, if required, for asset management; and for investigation and prosecution; and
- financial responsibility for liability in the event a case is not successful and the Crown has to pay damages.

26.46 We recognize that the newness of the legislation, the question of the Crown's liability and the number of departments involved have made implementation difficult. Nevertheless, the slowness in addressing these issues has resulted in real and potential financial losses for the federal government. For example:

- The RCMP had to work through provincial attorneys general rather than the federal Department of Justice in pursuing two cases. In one case, more than $1.4 million of assets were forfeited to a provincial treasury rather than to its federal counterpart.
- It was not until May 1990, 17 months after Bill C-61 was proclaimed that the federal government seized the first business suspected of being acquired using proceeds of crime.
- In a number of cases, rather than using the new legislation, the RCMP seized cash under other sections of the Criminal Code. As a result, more than $8 million in cash had to be kept in the RCMP vaults, where it could not

earn interest. The RCMP recognizes the problem and is currently looking into solutions.

26.47 In April, 1990 (18 months after the passage of the Bill) a Memorandum of Understanding was signed, which defined the respective roles and responsibilities of the federal departments involved. However, not all resourcing requirements have been fully settled and the asset management procedures have not been developed. Given the potential of forfeiture to the Crown, there is a need to resolve the remaining issues as soon as possible.

Enforcement Services Program

26.48 Enforcement Services handles the enforcement of other federal statutes that are not assigned to either the Drug Enforcement or the Economic Crime Program. In total, it involves more than 20 separate statutes, such as the Customs Act, the Excise Tax Act, the Immigration Act and the Migratory Birds Convention Act. More than 500 person-years are devoted to this activity.

Conflicts in enforcing the Customs Act

26.49 In 1932, an Order in Council transferred the "preventive service" function from Canada Customs to the RCMP. This transfer made the Force responsible for "smuggling, illicit stills and illicit traffic". The Customs Act was amended to give RCMP members the status of Customs officers and, therefore, the legal mandate to enforce the Customs Act.

26.50 "Smuggling" is defined as the intentional non-reporting of goods brought into Canada. During the 1930s, smuggling mainly involved the running of alcohol. However, since the 1960s, the nature of illegal activity has shifted from simple smuggling to cases involving fraudulent misrepresentation (that is, undervaluing or misdescribing goods). By doing so, importers avoid paying full customs duties.

26.51 In 1976, the RCMP launched its customs fraud program. Canada Customs saw this as an encroachment on what had historically been its territory. Subsequently, the two organizations discussed the problem and, in 1983, signed an agreement aimed at clarifying the RCMP's responsibilities. The agreement limited the RCMP's role to cases involving non-reporting of goods (that is, smuggling in the strictest sense). However, the RCMP could investigate customs fraud cases identified during an RCMP smuggling or other criminal investigation. Canada Customs indicates that this provision is the major source of conflicts.

26.52 In 1989 the RCMP, without first consulting with Canada Customs, renewed its emphasis on "commercial smuggling" and introduced a $200,000 "value-for-duty" goal per year per investigator to encourage better selection of cases. This target had two negative effects on the enforcement of the Customs Act:

- First, the target indirectly encouraged members of the RCMP to get into the business of investigating fraudulent misrepresentation cases (because the dollar value of this type of case is usually higher); and
- Second, personal smuggling cases referred to the RCMP by Canada Customs were not actively or consistently pursued by all RCMP divisions because of the lower dollar value of these cases. This failure to investigate conflicted with Canada Customs' overall enforcement strategy, which includes investigating a certain proportion of personal smuggling cases.

26.53 Vagueness of one specific section of the 1983 Agreement as well as the RCMP's interpretation of it, together with the $200,000 target, have resulted in a significant increase in the number of misdescription and undervaluation cases investigated by the RCMP since 1986. Accordingly, so has the potential for duplication of effort and working at cross purposes, as we have noted in a number of cases. Although the RCMP and Canada

Customs have met regularly at the national level, they have not been able to resolve these problems. This sort of conflict was not envisaged by the 1932 Order in Council.

The present relationship could be significantly improved through joint force operations and exchange of personnel.

26.54 Furthermore, we noted that the two agencies are interpreting differently certain provisions of the Customs Act. For example, Canada Customs has a policy of using Section 110 of the Act only at border points, but the RCMP uses it also in inland search and seizure, while waiting for an opinion from legal counsel. Thus, they may be applying different policies in enforcing the same legislation. It is our understanding that this matter is being resolved.

26.55 The Minister of National Revenue has retained responsibility for developing policy under the Customs Act and for co-ordinating the enforcement activities of both Canada Customs and the RCMP. The present relationship could be significantly improved through joint force operations, exchange of personnel, regular meetings at the working level, notification by the RCMP of cases which may involve any degree of fraudulent misrepresentation before further pursuing the investigation.

26.56 The RCMP should fundamentally re-examine its role in the enforcement of the Customs Act. If the present role is to continue, the RCMP should ensure that its customs enforcement activities are fully co-ordinated with the policies, strategies and priorities of Canada Customs.

RCMP response: *Agree. See the response to recommendation 26.42.*

26.57 There also have been some difficulties in enforcing the Export and Import Permits Act (EIPA). The Department of External Affairs and International Trade, (DEA) which administers the Act, involves both the RCMP and Canada Customs in its enforcement. Although there is an RCMP - DEA agreement signed in 1984 and there have been efforts, since 1985, to develop a tripartite agreement, no such agreement exists today. Because of this, respective roles are unclear and there are misunderstandings between the RCMP and Canada Customs concerning responsibilities and what constitutes a violation of the EIPA.

26.58 A tripartite agreement should be developed to clearly define the roles and responsibilities of the parties involved and clarify what violations against the Export and Import Permits Act are to be enforced.

RCMP response: *Agree.*

Enforcement of the Immigration Act

26.59 Employment and Immigration Canada (EIC) is responsible for administering the Immigration Act. A 1984 Agreement between the RCMP and EIC defined the role and responsibilities for the RCMP in immigration matters.

26.60 The RCMP's enforcement priorities focus on "organized smuggling" of people and "unscrupulous" immigration lawyers and consultants. Although the RCMP's priorities are consistent with EIC policy, there is no formal joint planning process to set enforcement goals, workload and resource levels.

26.61 RCMP members carry out investigations independently, but communicate with EIC officers as needed. The RCMP reports to EIC on all cases being prosecuted and the outcome of cases that EIC refers to them. The Force also shares relevant immigration intelligence with EIC.

26.62 The co-operation between the RCMP and EIC is, in general, good. In a meeting in March 1989, EIC senior management expressed satisfaction with the services provided by the RCMP. The two organizations meet periodically, at both the national and local level, to discuss and address policy and operational issues. We did note, however, that although the RCMP prepared an annual Immigration and Passport program report, it did not distribute the report to EIC to provide EIC managers with immigration enforcement data.

26.63 Chapter 15 of this Report discusses immigration control and enforcement activities involving EIC, the RCMP and other federal departments and agencies.

Relations with the Canadian Wildlife Service need improvement

26.64 The Canadian Wildlife Service (CWS) is responsible for administering a wide range of legislation and regulations, including the Migratory Birds Convention Act (MBCA), concerning the protection of wildlife in Canada.

26.65 The RCMP was given the responsibility for the enforcement of the MBCA through an Order in Council in 1932. No documents defined precisely the RCMP's responsibilities at the time; however, over the years, the RCMP's role has focussed on regulation enforcement.

26.66 In recent years, the RCMP has adjusted its priorities and reallocated the resources assigned to the MBCA. Accordingly, the time spent by the RCMP on MBCA cases had declined from 47,726 hours in 1983 to 28,390 hours in 1988. Inadequate consultations on these resource shifts occurred between the RCMP and CWS as there was no formal, national joint planning arrangement between them to facilitate such discussions.

26.67 Furthermore, in 1988, the RCMP left its 55 MBCA co-ordinator positions unfilled (equivalent to 28 person-years). The Force made this decision without first consulting CWS, which was only informed after the fact. CWS has indicated that growing MBCA enforcement needs could not be fully satisfied with the level of service which the RCMP provided.

26.68 CWS also administers many aspects of the Convention on International Trade in Endangered Species (CITES). Similarly, no formal arrangement for consultation and planning exists between the RCMP and CWS in enforcing CITES. Again, the growing CITES enforcement needs cannot be entirely satisfied with the level of service which the RCMP provided. We found that the Force has assigned a very low priority to CITES. Accordingly, a large number of CITES cases either have not been investigated, or have been concluded prematurely in some RCMP field divisions.

26.69 A 1989 CWS study found that RCMP personnel would benefit from additional training and knowledge in relation to CITES; the provision of this training is a CWS responsibility. RCMP management subsequently confirmed that its members lacked understanding of the CITES legislation.

26.70 The RCMP and CWS should jointly develop an interdepartmental agreement, establish a joint planning process and provide MBCA and CITES training for RCMP members.

***RCMP response**: Agree.*

Economic Crime Program

26.71 The Economic Crime Program enforces federal "economic" laws such as the Bankruptcy Act and the Income Tax Act and investigates cases of counterfeiting, stock market frauds, frauds against the federal government and computer crime. It also involves investigating national and international commercial crimes. The activity is carried out principally by about 430 personnel, located in 33 Commercial Crime Sections across Canada. In 1988, RCMP personnel logged more than 430,000 person-hours against this activity.

26.72 In recent years, the RCMP has taken steps to improve the efficiency and effectiveness of the Economic Crime Program. It has introduced a computerized stock market analyser and a system for rating the complexity of cases. However, a major problem exists with information for fraud investigations. This is discussed in detail in paragraphs 26.90 to 26.94.

Enforcement of the Bankruptcy Act

26.73 The Bankruptcy Branch of the Department of Consumer and Corporate Affairs (CCA) administers the Bankruptcy Act. The Act gives CCA's Superintendent of Bankruptcy the authority to hold inquiries and investigate any violation of the Act. These include cases in which parties strip a company of its assets before they declare bankruptcy, or they conceal or undervalue related assets.

26.74 In 1972, in a Letter of Agreement, CCA delegated certain responsibilities for investigation to the RCMP. Respective roles and responsibilities were further clarified in a 1986 Superintendent's Directives. The RCMP is responsible for criminal cases, but may become involved in investigating administrative and regulatory cases at the request of the Superintendent of Bankruptcy.

26.75 In recent years, bankruptcies in Canada, particularly personal bankruptcy cases, have increased significantly, and CCA has adopted an enforcement philosophy that places greater emphasis on administrative sanctions. These changes have had a significant effect on RCMP workload. Recently, the RCMP and CCA have started to hold regular planning meetings and introduced case screening procedures to ensure that scarce RCMP enforcement resources are devoted only to major fraud cases.

26.76 In investigating bankruptcy cases, RCMP officers have generally followed the process defined in the 1986 Directives. Communication is open and decisions are made in consultation with Bankruptcy Branch officers up until the point at which an investigation order is issued by the Superintendent. After that, the RCMP makes its own decisions regarding the means of prosecution to be used. It then reports the final outcome of the case to CCA.

26.77 However, beyond these case-by-case reports, the RCMP provides little in the way of summary statistics to CCA on bankruptcy workload and outcomes. These data would be useful for managing the Bankruptcy Act in general, and for measuring and monitoring the performance of the RCMP in dealing with bankruptcy cases in particular.

26.78 The administration of the Bankruptcy Act is covered by a separate audit of the Department of Consumer and Corporate Affairs which appears as Chapter 16 of this Report.

Audit Observations and Recommendations by Management Function

Law enforcement agreements need to be revised or updated

26.79 Today, the RCMP has in place more than 60 agreements covering the provision of RCMP enforcement services to federal departments. These agreements have been entered into over a 50-year span, although the practice only became common after 1970. In 1984, the Solicitor General issued a directive that required that the following elements be included in any interdepartmental law enforcement agreement:

- its purpose and objective;
- a description of all organizational obligations;
- liaison channels and points of contact;
- a provision for modification or cancellation;
- a precise legal description including the statutory authority governing the agreement; and
- a provision for audit and periodic evaluation.

26.80 Although the Ministerial Directive covers many important aspects, it does not go far enough. The following items should also be included:

- detailed roles and responsibilities;
- mechanisms to determine enforcement policy and strategy;

- performance standards and procedures for measurement; and
- mechanisms for information feedback.

26.81 Our findings on the Drug Enforcement Program (para. 26.32 to 26.41) and on the enforcement of the Migratory Birds Convention Act (para. 26.64 to 26.70), illustrate how critical a formal law enforcement agreement covering all essential elements is to ensuring effective enforcement.

26.82 A 1989 RCMP internal review found "there is no mechanism in place to review and update the conditions of the agreements and to determine if they have outlived their usefulness". The review noted that many of the agreements were out-of-date and did not meet the requirements of the Ministerial Directive. It also recommended that a large majority of the agreements be revised.

26.83 The RCMP is aware of the situation and is taking action. It has already begun to review its role in various federal statutes. When this has been completed, the Force intends to update or re-negotiate its responsibilities under each statute with the department concerned and revise the law enforcement agreements accordingly.

26.84 The RCMP should, in conjunction with its client departments, revise and update all of its law enforcement agreements to define detailed roles and responsibilities, to establish mechanisms for determining enforcement policy and strategies, to develop performance standards and procedures for measurement, and to provide for information feedback.

RCMP response: *Agree. The RCMP is already revising its law enforcement agreements but will incorporate into its new regime the additional recommendations made by the Auditor General.*

Program planning does not clearly define clients' needs

26.85 During our previous audit in 1981, we noted that the RCMP was working to meet the requirements of the Policy and Expenditure Management System (PEMS), which included developing "program profiles". Program profiles are to specify program mandates, objectives, performance measures and resourcing criteria; they provide the basis for planning and managing resources and evaluating results for each RCMP program. They are also prerequisites for any audit and evaluation.

26.86 Since 1988, the RCMP has taken a number of initiatives, such as the development of a new resource allocation system, revised operational planning framework and program profiles. The initiatives, when completed, will be a significant improvement.

26.87 However, at the time of our current audit, the Force had not completed the profiles for federal law enforcement programs, despite the fact that PEMS was introduced in 1979. The absence of these profiles has hampered the RCMP's ability to plan and manage its federal law enforcement activities. Furthermore, the draft planning manual does not specify how the Force should involve its client departments in defining their enforcement needs. Consequently, although the RCMP has consulted with the federal departments concerned, it has not formally documented the client's needs.

26.88 Our findings on the enforcement of the Customs Act (para. 26.49 to 26.55) and the Migratory Birds Convention Act (para. 26.64 to 26.70), indicate how important it is for the RCMP to involve its client departments in its planning process and how essential this involvement is to ensuring that the RCMP's services will meet the needs of its clients.

26.89 The RCMP should finish developing program profiles for its federal law enforcement activities. As part of its planning process, the Force should consult with its client departments to determine their needs in terms of enforcement goals, priorities, workload, resource levels and performance standards for each statute to be enforced.

RCMP response: *Agree.*

Management information systems need to be improved

26.90 In 1981, we reported that the RCMP did not have criteria for calculating its staffing requirements for the various federal law enforcement programs. We also reported that it was having difficulties in developing these criteria because it lacked basic data. Nine years later, the data are still inadequate.

26.91 More specifically, the systems do not record (or do not record accurately) many important basic data. For example:

- In Drug Enforcement, data on the time spent on cocaine cases has been available only since the beginning of 1990; and data on the time spent on investigating different offences, -- drug possession, trafficking, importation, cultivation and proceeds of crime -- are lacking.
- In Economic Crime, data on the number of cases and on the time spent in different categories of frauds such as stock market frauds, computer frauds and frauds against the federal government are unavailable. More than 200,000 hours were lumped into one generic code of "frauds and misappropriation".
- In Enforcement Services, data on the number of Export and Import Permit Act cases and the hours spent on them are not recorded.

26.92 Without these very basic data, the RCMP cannot develop appropriate indicators to measure and manage its federal law enforcement activities. It cannot be sure whether its limited enforcement resources have been allocated and used in an efficient and effective manner. As indicated earlier it also needs the data to communicate program results to the federal departments concerned.

26.93 The RCMP is aware of the problems with its management information. For example, at the time of our current audit, both the Economic Crime Directorate and the Drug Enforcement Directorate were trying to develop criteria for measuring performance and allocating resources.

Without basic data, the RCMP cannot develop appropriate indicators to manage its federal law enforcement activities.

26.94 The RCMP should improve its management information systems so that it has the data for managing federal law enforcement activities, developing performance measures and providing feedback on efforts and results to the federal departments concerned.

***RCMP response**: Agree. This is already an RCMP strategic priority and the recommendations of the Auditor General will be taken into consideration in pursuing it further.*

High turnover affects delivery of certain programs

26.95 RCMP management has recognized that in many areas of federal enforcement its members lack the experience and expertise needed to carry out complicated investigations. This problem has resulted from a high turnover of personnel caused by the Force's "generalist" approach to human resource development, and the related promotion, rotation and staffing policies. The delivery and management of the Economic Crime and Customs and Excise (C&E) Programs have been particularly affected by the high rate of turnover.

26.96 In 1988, the RCMP determined that an "unreasonably high" turnover of its C&E Program personnel had caused the value of seizures to decrease from $15.7 million in 1980 to $6.1 million in 1986. One study showed that staff in the C&E unit of the Quebec City Detachment had, on average, nine months experience. Another found that the turnover rates in C&E in the two largest cities in Canada were:

	1988	1989
Toronto (23 positions)	87%	65%
Montreal (28 positions)	50%	64%

26.97 In the Toronto Commercial Crime Section, fewer than 40 percent of its members have the two years of experience considered by the RCMP as the minimum required for officers to be effective. In 1989, a divisional audit of the Commercial Crime Branch in Toronto found that the lack of management continuity had also affected the program adversely to a significant extent.

26.98 High turnover has also frustrated training efforts. In the past five years, although 522 members have gone through the basic C&E training (that is, an effort equivalent to training the entire C&E staff of 180 almost three times over), 61 percent of the C&E personnel in 1989 had not had any basic C&E training. Many officers had been transferred out of C&E units soon after they had received their training.

26.99 Secondments can also be detrimental to a unit's performance. In 1988, the C&E section of Trois-Rivières detachment spent 70 percent of its resources on drug enforcement and other secondment work.

26.100 RCMP management is aware of these basic problems and has been contemplating the possibility of "specialization" of its federal law enforcement personnel. Both the Economic Crime and Enforcement Services Programs have upgraded the standards for selecting their staff. However, they have encountered difficulties in implementing these new standards.

26.101 The RCMP should examine the turnover rate in federal law enforcement. If it is adversely affecting performance, the Force should take steps to reduce or minimize it.

RCMP response: *Agree. This will be examined as part of the RCMP strategic action plan for enhancing human resource management.*

Audit effort needs redirection and clarification

26.102 The RCMP has a four-level review/audit function: quality reviews, managerial reviews, divisional audits and the Commissioner's audits. It also has an independent program evaluation group.

26.103 We found that RCMP audits and reviews are generally carried out on an organizational or geographical basis and are oriented toward assessing the extent to which the organization complies with legislation, policy and directives. Compliance with regulations and standards is important in police work. However, we believe that federal law enforcement would be better served if the Commissioner's audits were to extend beyond compliance matters to address, on a program-by-program basis, management issues such as interdepartmental agreements, joint planning processes, program results and mechanisms for client feedback.

26.104 The RCMP evaluated its review/audit function in 1987. The evaluation revealed that the four levels of reviews and audits had resulted in duplication of effort. It also concluded that, since these reviews and audits noted the same faults, the control mechanisms have not been effectively applied. As a result of the evaluation, the Force has introduced a number of corrective steps, one of which is the program audit concept. In 1988, an experimental "program audit" of the Economic Crime Program was completed. However, the RCMP has not yet developed the methodology for carrying out these audits.

26.105 The RCMP should develop a methodology for "program audits" and carry out the Commissioner's audits of its federal law enforcement activities on a program-by-program basis, making them progressively more focussed on the results of programs.

RCMP response: *Agree.*

Reporting to Parliament Is Fragmented and Incomplete

26.106 Few details about the RCMP's involvement in enforcing particular statutes are included in the Expenditure Plans (Part III of the Estimates) of either the RCMP or the applicable departments. Consequently, Parliament does not have information on the total cost of specific regulatory programs. For example, the RCMP uses about 100 person-years annually in enforcing the Bankruptcy Act (in comparison with a total of 135 person-years in the Bankruptcy Branch of CCA). This fact has never been reported in either the RCMP or CCA Expenditure Plan. Another example would be the RCMP's involvement in enforcing the Customs Act.

26.107 Fragmented and incomplete information can lead to uninformed decisions by government and inadequate scrutiny by Parliament. Holding departments to account for their use of resources is best achieved when adequate information is provided. Without complete information, duplications or conflicts, such as those we noted in drug enforcement and in the enforcement of the Customs Act, can occur.

26.108 In its annual Expenditure Plan, the RCMP should disclose its involvement (in terms of numbers of cases and person-hours) for each statute where its effort exceeds a basic threshold amount of, for example, 50 person-years.

RCMP response: *Agree.*

Longstanding Problems Cannot Be Resolved by the RCMP Alone

26.109 Major problems in overlapping responsibilities and operational difficulties between the RCMP and other federal departments and agencies have developed since the mid-1970s.

26.110 Government studies in 1975 and 1978 identified problems such as strategical conflicts and a lack of communication and co-operation between federal law enforcement agencies. These problems were found to impair both efficiency and effectiveness. In 1978, an RCMP internal study confirmed that these problems did indeed exist.

26.111 Our 1981 Report stated that "A major influence on the RCMP's federal law enforcement responsibilities is a somewhat ambiguous mandate in relation to many of the federal statutes." It also said that "In the past two decades, many federal departments and agencies have assumed more active enforcement roles with objectives differing from those of the RCMP."

26.112 In 1984, the government directed the Solicitor General to undertake a study entitled Federal Law Enforcement Under Review (FLEUR). The FLEUR report was completed in 1986, and again it revealed the same problems raised by the three previous studies. However, the government did not accept FLEUR's main proposal which was to establish a federal law enforcement commission to co-ordinate and standardize the federal law enforcement system. Instead, in 1987 the government established an Interdepartmental Committee of Deputy Ministers to oversee the development and implementation of solutions to the problems that FLEUR had identified. Unfortunately, the major weakness that FLEUR and earlier studies have pointed out, namely, the role and responsibilities of the RCMP for enforcing federal laws, remains unresolved.

In spite of these RCMP initiatives, some problems are more deeply rooted and require a fundamental solution.

26.113 This Chapter attempts to address those problems in federal law enforcement which can be dealt with by the RCMP itself. First, the RCMP needs to improve its internal operations and program management. Second, it needs to improve its interdepartmental relations, something that already has the commitment of the Commissioner.

26.114 In spite of these RCMP initiatives, some of the problems with federal law enforcement, such as mandate disputes and policy differences, are more deeply rooted and require a fundamental solution. These longstanding problems cannot be resolved by the RCMP or any one department alone. For example, the problems between the RCMP and Canada Customs in drug and customs enforcement may warrant action by the Cabinet.

26.115 There is a need to clearly define the enforcement role of the RCMP in each program in which it is involved at present. The RCMP is currently negotiating its role in enforcing the Canadian Environmental Protection Act and the proposed Goods and Service Tax Program. Early clarification of the RCMP's responsibilities in these new statutes could prevent many of the interdepartmental difficulties that we have observed during this audit.

27

Royal Canadian Mounted Police

Support Services to Canadian Law Enforcement Agencies

Royal Canadian Mounted Police

Support Services to Canadian Law Enforcement Agencies

Main Points

27.1 The RCMP assists upon request over 400 Canadian law enforcement agencies by providing certain specialized services such as police training, forensic laboratory tests, fingerprint identification and a computerized law enforcement information system. These services contribute to the effectiveness of law enforcement across Canada (paragraphs 27.5 to 27.8).

27.2 Users have been generally satisfied with the level, type and quality of support services they have received from the RCMP (27.33 to 27.35, 27.49 and 27.106). However, our audit of the four RCMP entities providing these services indicated:

- Forensic Laboratory Services is currently replacing some of its older full-service laboratories with new full-service laboratories. In doing so, it has failed to consider more economical options such as a combination of full-service and limited-service laboratories (27.25 to 27.31).
- While the Canadian Police Information Centre has a number of system controls in place, it would benefit from an enhanced level of knowledge and control concerning the level of potential data misuse (27.56 to 27.58).
- The Canadian Police College has not made the necessary long-range curriculum and program adjustments. As a result, it has continued to provide a virtually unchanged curriculum and may not be fulfilling its intended mandate (27.68 to 27.72).
- Identification Services has not always provided the users of its services with the necessary level of information and participation to ensure services which meet user requirements (27.79 to 27.97).

27.3 Despite the fact that a number of these services are interrelated and complementary, they have evolved uniquely and operate independently. Each organization has defined differently its level of service and applicable limiting conditions. These services need a consolidated operating philosophy and a more integrated vision for the future (27.100, 27.101, 27.107 and 27.108).

27.4 User participation is vital to the success of service-oriented organizations. Currently, there is no consistent approach concerning user participation and input. Two of the service areas have advisory committees but the other two do not. Greater user participation is needed as an input to the design, development and operation of these services (27.33, 27.47, 27.67, 27.81 to 27.83 and 27.95).

Table of Contents

Paragraph

General Background 27.5

- **History** 27.9
- **Environment** 27.11

Audit Objective and Scope 27.14

Forensic Laboratory Services (FLS)

- **Background** 27.18
- **Observations and Recommendations** 27.21
  - FLS may be providing some services outside the scope of its mandate (27.21)
  - The construction of new lab facilities is made without adequate analysis of all options (27.25)
  - FLS clients are generally satisfied with FLS services (27.33)
  - The FLS approach to performance measurement needs improvement (27.36)

Canadian Police Information Centre (CPIC)

- **Background** 27.41
- **Observations and Recommendations** 27.49
  - Users are generally satisfied with CPIC but there are some areas of concern (27.49)
  - The control of CPIC data use needs improvement (27.51)
  - The RCMP does not have an approved disaster recovery plan for CPIC (27.60)

Canadian Police College (CPC)

- **Background** 27.64
- **Observations and Recommendations** 27.68
  - CPC has not made the necessary long-range curriculum and program adjustments to fulfil its intended mandate (27.68)
  - The College does not validate most of its training programs on a regular and systematic basis (27.75)

Table of Contents (cont'd)

Paragraph

Identification Services

Background 27.78
Observations and Recommendations 27.79
Client co-operation and participation are essential to the success of identification services provided by the RCMP (27.79)
Mugshot repository is not fully utilized (27.85)
Latent fingerprint identification role is not clear (27.88)

Case Study: Upgrade of the Automated Fingerprint Identification System (AFIS - Phase IV)

Identification Services is taking steps to improve its performance measurement and budgeting practices (27.97)

General Observations and Recommendations 27.98
Law Enforcement Services is not an integrated entity (27.100)
Clients are generally satisfied (27.106)
What should the RCMP's future support service role be? (27.107)

Exhibits

27.1 Services to the Canadian Law Enforcement Community
27.2 Services and Caseload of RCMP Forensic Laboratories
27.3 Typical Toxicology Case Composition
27.4 1989 CPIC File Statistics by Type of Transaction
27.5 Percentage of CPC Student Training Days by Type of Training - 1989
27.6 Major Central Repositories - Identification Services
27.7 RCMP Latent Fingerprint Identification
27.8 Overview - Latent Fingerprint Identification in Canada

Royal Canadian Mounted Police

Support Services to Canadian Law Enforcement Agencies

General Background

27.5 The RCMP provides a wide range of specialized services to the Canadian law enforcement community, including forensic laboratory services, police training, criminal history records, fingerprint identification and law enforcement information such as wanted persons and registered vehicle owners. Exhibit 27.1 details these services which are described as Law Enforcement Services within the RCMP.

27.6 Although these services account for a small portion of RCMP expenditures, they make an essential contribution to the operations of law enforcement agencies. They possess a world-wide reputation which reflects not only on the image of the RCMP but also on Canada.

27.7 Sections 5 and 21(2) of the RCMP Act provide the authority for these services. They outline in broad terms the authority of the Commissioner of the RCMP to control and manage the Force. In 1973, Treasury Board approved changes to the RCMP's objectives. This was reflected in the 1974/75 Main Estimates as follows: "to assist upon request all Canadian law enforcement agencies by providing specialized police training and forensic laboratory, identification and information services".

27.8 Both the RCMP Act and the Treasury Board Minute provide a broad definition of these services to the law enforcement community. As a result, the various services and the units providing them have evolved somewhat differently. In 1988/89 the RCMP allocated more than $65 million and 860 person-years to provide these support services.

History

27.9 The origin of these services can be traced back to 1898 when Parliament passed the Identification of Criminals Act and set up a Central Bureau in Ottawa where police forces could send the results of their examinations of criminals. In 1908, the Central Fingerprint Bureau and Criminal Records came into being.

27.10 Over the years additional services were added by the RCMP. The Single Finger Print Collection was established in 1933 and the Firearms Registry in 1935. The first forensic laboratory was built in Regina in 1937, the Canadian Police College in 1968 and the Canadian Police Information Centre began on-line operations in 1972.

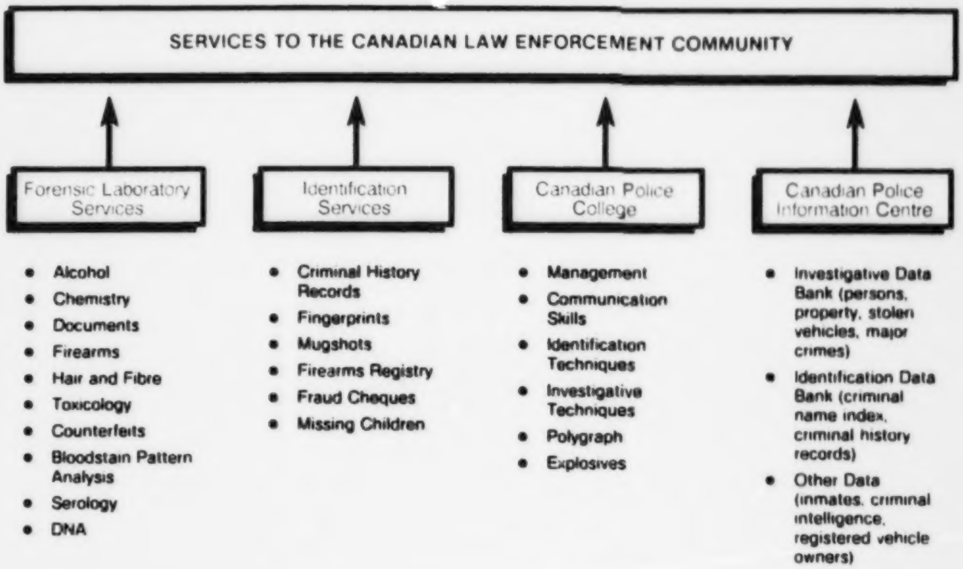
Environment

27.11 Providing a number of services to a wide variety of clients with different needs is an ongoing challenge for the RCMP. Over 400 Canadian police forces, federal departments with enforcement responsibilities such as Parks Canada, and various federal, provincial and municipal agencies use these services. The needs of a large police department such as Metropolitan Toronto Police (5,373 officers) may be different from those of a one-officer force such as the Macklin (Saskatchewan) Police Department.

> ***RCMP management must be vigilant in its pursuit of economy and efficiency.***

27.12 In 1966, the federal government reaffirmed its desire to provide RCMP support services free of charge to law enforcement agencies. At present the majority of these services are federally funded. However, from time to time, charges have been levied for components of certain services, (for example

Exhibit 27.1


SERVICES TO THE CANADIAN LAW ENFORCEMENT COMMUNITY
Forensic Laboratory Services
Identification Services
Canadian Police College
Canadian Police Information Centre
Alcohol
Chemistry
Documents
Firearms
Hair and Fibre
Toxicology
Counterfeits
Bloodstain Pattern Analysis
Serology
DNA
Criminal History Records
Fingerprints
Mugshots
Firearms Registry
Fraud Cheques
Missing Children
Management
Communication Skills
Identification Techniques
Investigative Techniques
Polygraph
Explosives
Investigative Data Bank (persons, property, stolen vehicles, major crimes)
Identification Data Bank (criminal name index, criminal history records)
Other Data (inmates, criminal intelligence, registered vehicle owners)

sharing the cost of Canadian Police Information Centre lines and terminals or paying for student meals at the Canadian Police College).

27.13 The fact that these services are provided free of charge adds a unique dimension to the demands placed upon the RCMP. Because there is implicitly no external client pressure for cost efficiency, the RCMP itself must be vigilant in ensuring due regard for economy and efficiency.

Audit Objective and Scope

27.14 The objective of the audit was to determine whether the RCMP meets the needs of its clients in an economic and efficient manner.

27.15 The audit consisted of an examination of Forensic Laboratory Services (FLS), the Canadian Police Information Centre (CPIC), the Canadian Police College (CPC) and Identification Services. The audit focussed on five themes which were reviewed with the RCMP:

- authority and scope of operations;
- ability to know and meet client needs;
- regard for efficiency and economy in servicing clients;
- accuracy and completeness of information and systems; and
- planning, project management and accountability.

27.16 The audit included a review of activities both at RCMP Headquarters and in the field. We surveyed internal and external users of these services as well as organizations providing similar services both in Canada and elsewhere.

27.17 The following Law Enforcement Services were not included in the scope of this audit because they mainly provide an internal service to the RCMP.

- Professional Standards Directorate;
- Photographic Services and Support Services to RCMP Field Identification Units (Identification Services Directorate); and
- Informatics Directorate (except for CPIC).

Forensic Laboratory Services

Background

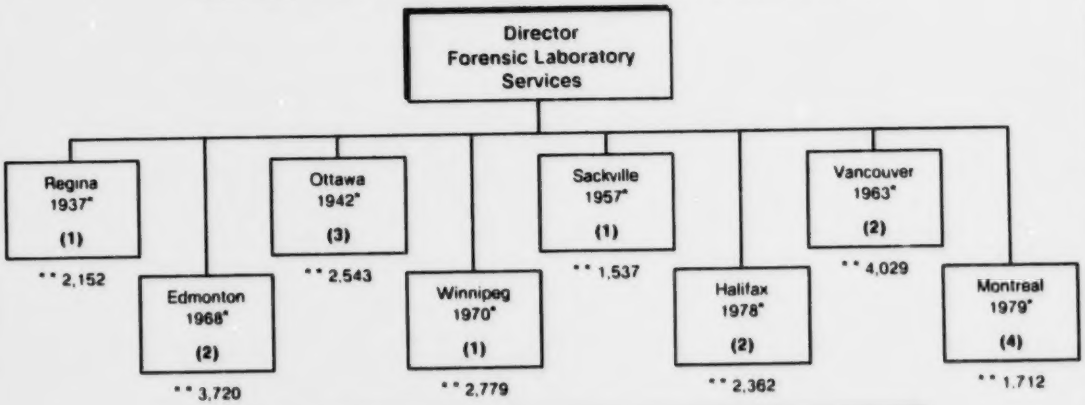
27.18 The RCMP Forensic Laboratory Services (FLS) operates a network of eight laboratories across Canada. It provides expert opinion to Canadian police agencies, the judiciary and other federal, provincial and municipal agencies through the scientific examination of exhibits in criminal matters. FLS utilized $24.9 million and 347 person-years in 1988/89.

27.19 Each laboratory (with the exception of Montreal which offers only a counterfeit and documents service) provides services in the standard areas of forensic science: alcohol, chemistry, documents, firearms, hair and fibre, photography, serology and toxicology. Other specialized services such as Bloodstain Pattern Analysis and Genetic DNA technology are only offered in certain laboratories. Exhibit 27.2 details the services and workload of FLS laboratories.

27.20 Over the last three years the total caseload has remained at about 20,800 cases completed annually. Approximately 53 percent of FLS casework is from the RCMP itself either in its role as federal police (15 percent), provincial police (23.5 percent) or municipal police (14.5 percent). The rest of FLS clients are mainly independent municipal police forces.

Exhibit 27.2

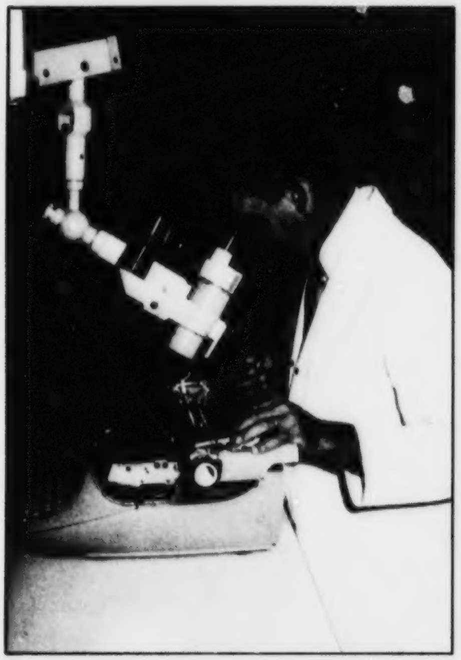
SERVICES AND CASELOAD OF RCMP FORENSIC LABORATORIES



SERVICE CATEGORY

(1) All standard services
(2) All standard services plus Bloodstain Pattern Analysis
(3) All standard services plus Bloodstain Pattern Analysis, DNA, Counterfeits and National Research
(4) Limited service - Counterfeits and Documents only

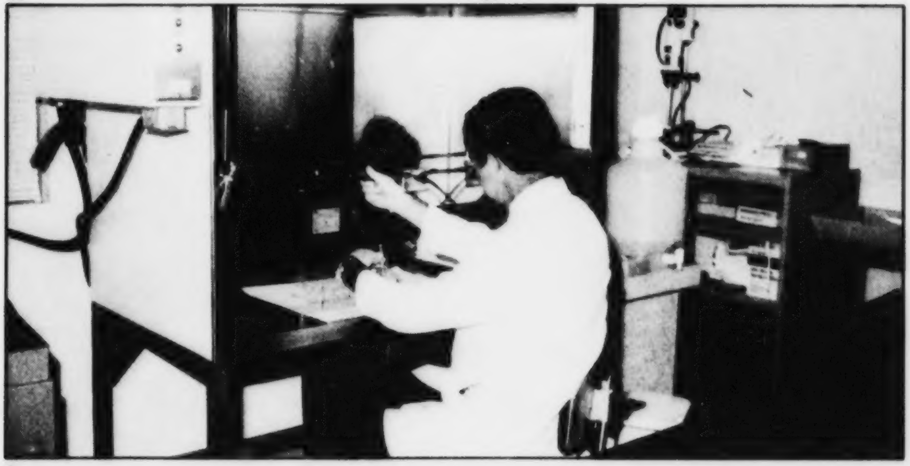
* Year of establishment
** No. of cases in 1988/89



1.

2.

3.



4.

FLS provides services in several standard areas of forensic science:

1. *Documents*
2. *Hair & Fibre*
3. *Firearms*
4. *Serology*

(see paragraph 27.19).

Observations and Recommendations

FLS may be providing some services outside the scope of its mandate

27.21 The scope of the FLS mandate as defined in Part III of the Estimates (1990/91) states that these services provide scientific and technical assistance in criminal matters to all Canadian police agencies. FLS is in the process of amending its Laboratory Services Manual to ensure that all requests for analysis undertaken involve a criminal matter

27.22 One type of case which may exceed the scope of the FLS mandate is a Coroner's Act case. A Coroner's Act case constitutes a request from a provincial coroner or medical examiner for FLS services, usually in the disciplines of toxicology and alcohol, in the investigation of a death. The majority of these cases end up being non-criminal in nature. As such they could be considered outside the scope of the FLS mandate.

27.23 FLS indicates that little is being done by police departments and provincial coroners to screen cases which are obviously non-criminal in nature before submitting them for examination. During 1988 and 1989 approximately $2.5 million of casework or 10% of all FLS cases were Coroner's Act cases. Most of these cases come from provinces other than British Columbia and Alberta which have their own provincial laboratory facilities.

27.24 FLS should take steps to prevent obvious non-criminal cases from being submitted for examination.

***RCMP response**: Agree. Recognizing that the distinction between deaths with potential criminal involvement and those resulting from natural or disease processes is not well defined in policy, FLS will develop guidelines to assist coroners and Medical Examiners. Discussions with provincial authorities to resolve this matter have already commenced.*

The construction of new laboratory facilities is made without adequate analysis of all options

27.25 The construction of FLS laboratories across Canada has generally followed a consistent pattern. Small laboratory facilities were first provided in a province to service a specific need such as alcohol testing. Once that service was established, demand for other services grew, resulting in the construction of new full-service (all standard services) laboratories. Today, with the exception of Montreal, there is a network of full-service laboratories across the country.

27.26 FLS is now entering a new phase as older laboratories require reconstruction or renovation due to age, new government health and safety regulations or expanded space requirements. In addition FLS is considering relocating an existing laboratory and building a new one.

27.27 Treasury Board Administrative Policy (Chapter 540) stipulates that the planning process for capital projects should comprise a definition of needs, an identification of options and a cost benefit analysis.

The concept of building full-service laboratories was never challenged.

27.28 In the 1989 approval for reconstruction of the Regina laboratory, a thorough evaluation of all available options including a cost benefit analysis of each option did not precede the final decision. While some needs were identified, the primary focus of the option analysis was directed toward construction or renovation of the laboratory, and property lease or buy decisions. Opportunities were missed for examining other options. For example, the concept of building a full-service laboratory was not challenged. Other relevant factors that affect the range of services offered and operating cost of the future laboratory were not considered either: how exhibits are or will be received; the degree to which workload is rising or decreasing; and the feasibility of contracting out certain routine tests.

27.29 During the period in which the reconstruction of the Regina laboratory was being considered, a new laboratory was being planned for construction in Winnipeg. Given the timing and proximity of these laboratories, the planning process could have taken into consideration the feasibility of specialization or combining both facilities.

27.30 Other laboratory systems use these approaches. The Centre for Forensic Science in Ontario, the Illinois State Forensic Laboratories and the Forensic Science Service Home Office in the United Kingdom have used satellite laboratories or designated laboratories that specialize in certain disciplines such as firearms or documents.

27.31 A similar situation exists concerning the potential relocation of the Sackville laboratory. Although a final decision has not been taken on the relocation and construction of this laboratory, deliberations to date have followed those of the Regina laboratory. The decision concerning the Sackville laboratory should not be taken in isolation. The number, size, location and degree of specialization of FLS laboratories across the Atlantic region need to be considered as part of a cohesive, cost effective strategy to service all clients in these provinces.

27.32 FLS should ensure that future laboratory construction decisions are based on the identification and cost/benefit analysis of all viable options.

***RCMP response**: Agree. The two oldest laboratories at Regina and Sackville are now in need of replacement. Prior to any final decision a full options analysis, including the possibility of consolidating some services to regional centres, if justified, will be completed.*

FLS clients are generally satisfied with FLS services

27.33 FLS uses survey questionnaires, client meetings and internal RCMP reviews to assess client concerns and the level of client satisfaction. The results of a 1986/87 National Lab User Survey conducted by FLS as well as our own client interviews have indicated general overall satisfaction with FLS services. With over 20,000 cases completed annually, few occasions were found in which work completed was unacceptable either to the client or the court.

27.34 The FLS approach to assigning priority to its cases has met the needs of its clients. Emergency cases are handled immediately and most cases with court dates are completed on time.

27.35 Another aspect of level of service is quality assurance. FLS has implemented most aspects of a good quality assurance program (exhibit control, equipment performance control, standardized procedures, staff selection and training, as well as periodic testing). The FLS testing program has expanded beyond administering announced proficiency tests which measure the capability of its scientists, to a blind testing program which measures the ability of the entire lab system to function reliably under everyday conditions. The current training and methodology manuals for some disciplines are incomplete or out of date. FLS plans to update these manuals over the next few years.

The FLS approach to performance measurement needs improvement

27.36 Since 1983 FLS has used a system called Work Unit Reporting (WUR) to measure laboratory performance. This approach uses cases received and completed as its unit of workload measurement.

27.37 The difficulty with using cases as a unit to measure workload is that case size and complexity varies considerably. Exhibit 27.3 outlines two cases which demonstrate the differences in case size and complexity. For this reason, other laboratory systems have rejected systems which count cases and hours per case. Workload measures must be both homogeneous and at a level of detail (for example, counting the number of exhibits or tests) that make them usable for assessing individual and unit performance.

27.38 FLS employees provide hours-per-case data once a month. Other laboratories surveyed indicated that to be accurate, the collection of performance data should be an intrinsic part of the daily routine of laboratory work.

27.39 FLS takes the actual work performed, measured in hours per case and compares it against "standard hours per case" to measure productivity in each discipline. Except for the discipline of hair and fibre, the origin of "standard hours per case" is unknown and not validated. Most staff that we surveyed consider these standards inaccurate. FLS uses this data

Exhibit 27.3

TYPICAL TOXICOLOGY CASE COMPOSITION

	CASE A	CASE B				
DESCRIPTION	**Driving Under the Influence of a Drug**	**Murder Case - Stabbing with Drug Use Suspected Suspect in Custody**				
EXHIBITS	**Blood Sample 1-2 Test Tubes**	**Blood - Victim**	**Urine Sample - Victim**	**Stomach Contents - Victim**	**Liver Tissue - Victim**	**Blood Sample - Suspect**
POTENTIAL TESTS	4 Tests	19 Tests *				
POST ACTIVITY	● Interpretation of Results ● Conclusions (Opinions) ● Court Attendance	● Interpretation of Results ● Conclusions (Opinions) ● Court Attendance				

* *In case B, several tests were actually performed for all exhibits. It is important to note that test results on an exhibit will determine the number and type of tests on other exhibits.*

to forecast future resource requirements. As a result, it is difficult to accurately predict resource requirements.

27.40 FLS should improve its performance measurement system by using an appropriate unit of measurement, recording data daily and developing accurate standards.

RCMP response*: Agree. FLS recognizes that the present Work Unit Reporting System requires improvement and accordingly has established a goal to re-evaluate the system as one component of a Management Information System Study which commenced in 1989.*

Canadian Police Information Centre

Background

27.41 The Canadian Police Information Centre (CPIC) is a national computer information system providing a wide range of operational police information to Canadian law enforcement agencies.

27.42 RCMP CPIC Services is a part of Informatics Directorate. It had an estimated budget of $10 million and 72 person-years in 1988/89. The RCMP has invested close to $25 million in equipment (for example, mainframes, computer drives, terminals, power and air conditioning) to support CPIC.

27.43 The CPIC network contains records from four separate sources: (i) files entered by police agencies -- wanted or missing persons, stolen vehicles, boats and property; (ii) files entered by RCMP Identification Services -- criminal history records; (iii) files entered by the police criminal intelligence community -- police criminal intelligence files; and (iv) records contributed by non-police agencies -- motor vehicles and penitentiary records.

27.44 In total, these data banks consist of almost 30 million records. Motor vehicle registrations and drivers licence records account for about 22 million of these, while criminal history records number 2.4 million.

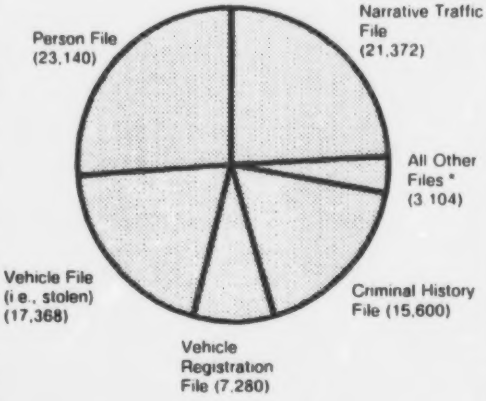
27.45 Annually about 400 agencies perform over 87 million CPIC transactions (queries, inputs and record maintenance). Exhibit 27.4 outlines the variety of CPIC transactions which are performed over a network of 5,251 CPIC terminals. CPIC is up and running about 98% of the time.

27.46 CPIC users fall into three main groups: (1) more than 340 accredited police forces; (2) agencies with limited access to CPIC such as Parks Canada; and (3) agencies with no direct access (for example, Motor Vehicle Registrars).

27.47 The Commissioner of the RCMP is the sole authority for CPIC policy and procedures. A CPIC Advisory Committee, created in 1969, develops policy and recommends changes to the system. This Committee represents the 400 agencies and gives them an opportunity to provide input into the management of CPIC.

Exhibit 27.4

1989 CPIC FILE STATISTICS
By Type of Transaction (000's)



* Other Files include Marine, Property and Intelligence Files

27.48 The ongoing operation of the CPIC system as well as the enforcement of all policy, auditing and training of users has been assigned to RCMP CPIC Services for all of Canada except in Ontario and Quebec where these responsibilities have been handled by the province.

Observations and Recommendations

Users are generally satisfied with CPIC but there are some areas of concern

27.49 RCMP CPIC Services regularly assesses client satisfaction. Mechanisms such as regular CPIC user visits, internal RCMP reviews and survey questionnaires on any special searches have indicated general satisfaction with CPIC. There are however some areas of concern:

- the backlog of user-requested system changes which have not been completed due to the age of the CPIC system and the limited number of resources assigned to programming CPIC system changes;
- lack of user knowledge of RCMP's future plans for CPIC, information vital to member agencies' strategy when planning changes or adjustments to their automated systems;
- the annual percentage of CPIC records which cannot be validated, (that is, a record which cannot be traced to its source file within fifteen minutes by the originating police force); and
- the inconsistent provision of provincial motor vehicle data across the CPIC network caused by the varied manner in which these data are provided to CPIC.

27.50 In order to maintain CPIC system credibility and usefulness, the RCMP should address outstanding user concerns.

The CPIC network is available at all levels of law enforcement (see paragraph 27.46).

RCMP response: Agree. Action will be undertaken to address these concerns where they are within RCMP's control and within the context of a project for the future redevelopment of the system to meet current and future needs.

The control of CPIC data use needs improvement

27.51 The provisions of the Identification of Criminals Act, Young Offenders Act, the Ministerial Directive -- Release of Criminal Record Information by the RCMP, and provincial guidelines provide guidance to CPIC agencies as to who should have access to CPIC information and under what conditions.

27.52 The sensitivity of CPIC data stems from the system's capability to provide and integrate quickly large amounts of information. In addition, observation records (persons suspected of committing criminal offenses and those known to be dangerous to themselves and others, totalling 27,644 in 1989) which are not public information, are retained on the CPIC Persons File in the Investigative Data Bank.

27.53 Improper or sabotaged CPIC entries or unauthorized disclosure of information could result in wrongful arrest, danger to police officers, criminal actions, harassment or disclosure of police information.

The sensitivity of CPIC data is reinforced by the system's ability to provide, quickly, integrated law enforcement information.

27.54 While each terminal or device linked to the CPIC network must identify itself and the individuals using the device must enter their name and reason for entry when accessing CPIC, there are no centrally controlled unique individual identifiers such as Smart Cards, passwords or personal identification numbers, which are normally required when accessing a computer network of this size and sensitivity. Such identifiers would provide an investigative path back to an authorized individual if a problem occurs.

27.55 We also noted a certain physical aspect of the system that needed to be addressed. Since the disclosure of specifics in this chapter regarding this area would compromise the system, the matter has been brought to the attention of RCMP senior management.

27.56 Of the more than 45 million annual CPIC queries, RCMP CPIC Services annually monitors approximately 50 investigations of potential breaches of security reported by police departments and individuals. It is not known whether there is any CPIC data misuse other than the cases currently reported.

27.57 The CPIC Audit Procedures Manual is primarily focussed on the audit of data input and the security of terminals. However, auditors do review a small sample of queries and narrative traffic from the agency being audited to look for evidence that the individuals requesting CPIC data have entered their name and reason for entry and that law enforcement officers are making efficient use of the CPIC system by not tying up data traffic with needless narrative.

27.58 RCMP CPIC Services needs to provide better assurance that the appropriate measures are in place to identify and control the level of data misuse. At present the CPIC Audit Procedures Manual does not require auditors to verify that CPIC queries were made for legitimate purposes. RCMP officials have indicated that the manual will be updated to make this mandatory.

27.59 The RCMP should investigate the feasibility of unique identifiers for access to CPIC and augment its audit activities in this area.

***RCMP response**: Agree. The accuracy and timeliness of CPIC data is assured through a wide range of policy, procedural and technical measures. The current system has many built-in safeguards which make it difficult for exposures to occur. However, it is recognized that more could be done to secure data on the CPIC system from incidental exposure to unauthorized persons. CPIC 2001 will examine potential changes to CPIC which will improve system security and data integrity. One of the areas specifically targeted for this study is Smart Cards as Personal Identifiers.*

The RCMP does not have an approved disaster recovery plan for CPIC

27.60 While the RCMP has taken steps to provide both data and mainframe backup for CPIC, there is no approved site recovery plan for CPIC in the event of a disaster.

27.61 The RCMP's Departmental Security has completed both a threat assessment (May, 1988) and a draft contingency plan (January, 1990) for the Informatics Directorate. The threat assessment indicates that no site has been identified for restoring CPIC. Many of the functions identified in the draft contingency plan have not been assigned and there is no provision for the plan to be tested regularly.

27.62 CPIC Services has indicated that the maximum time that the Canadian police community can be without CPIC data before operations are seriously affected is 24 hours. At present the RCMP does not have an approved plan or capacity to recover CPIC in 24 hours should such a disaster occur.

27.63 The RCMP should ensure that it has the capability to recover CPIC within a period of time which meets user operational requirements.

***RCMP response**: Agree. Site disaster recovery has not been resolved because no alternate arrangements have been possible until recently at an acceptable cost. One such opportunity to be based on a reciprocal agreement is now under active negotiation. Twenty-four hour site recovery is not likely to be possible at an affordable cost, but restoration of CPIC operations within 72 hours appears feasible.*

Canadian Police College

Background

27.64 The Canadian Police College (CPC) provides a range of training programs as well as some social science research to Canadian police forces, government agencies and foreign police departments. The College used $7.0 million and 79 person-years in 1988/89.

27.65 CPC has grown from its initial training course for senior non-commissioned officers and constables in 1938, to six courses by 1971, culminating in the formation of a college in 1973.

27.66 CPC currently offers 35 different courses to between 2,200 and 2,500 Canadian and up to 100 foreign law enforcement officers annually. Courses are offered in two categories: management and specialized training. Exhibit 27.5 outlines the proportion of CPC training days dedicated to management and specialized training by type of training.

27.67 To provide advice and guidance to ensure that the College meets national needs, it has a 14-member Advisory Committee comprising one representative each from the RCMP, the Solicitor General of Canada, the Canadian Association of Chiefs of Police, the CPC and the provinces.

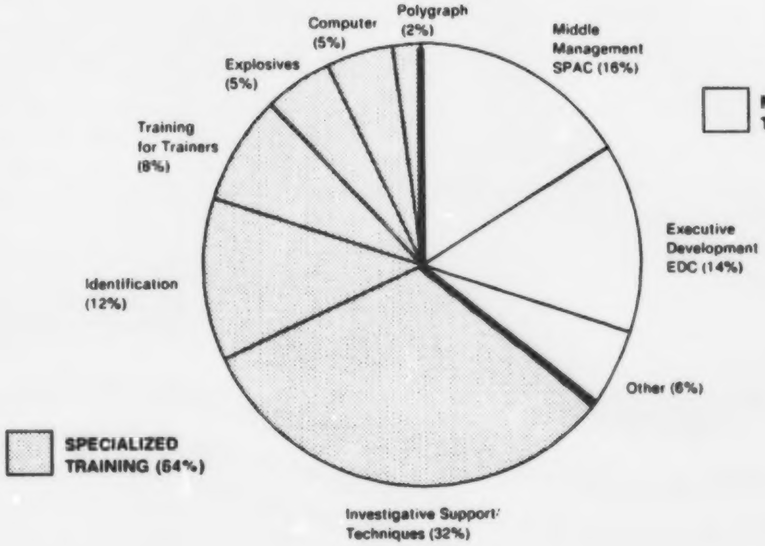
Observations and Recommendations

CPC has not made the necessary long-range curriculum and program adjustments to fulfil its intended mandate

27.68 From its inception, it was intended that the College would take a leading role in the training of experienced police officers by offering a high quality curriculum of programs to police forces both in Canada and internationally.

Exhibit 27.5

PERCENTAGE OF CPC STUDENT TRAINING DAYS BY TYPE OF TRAINING - 1989

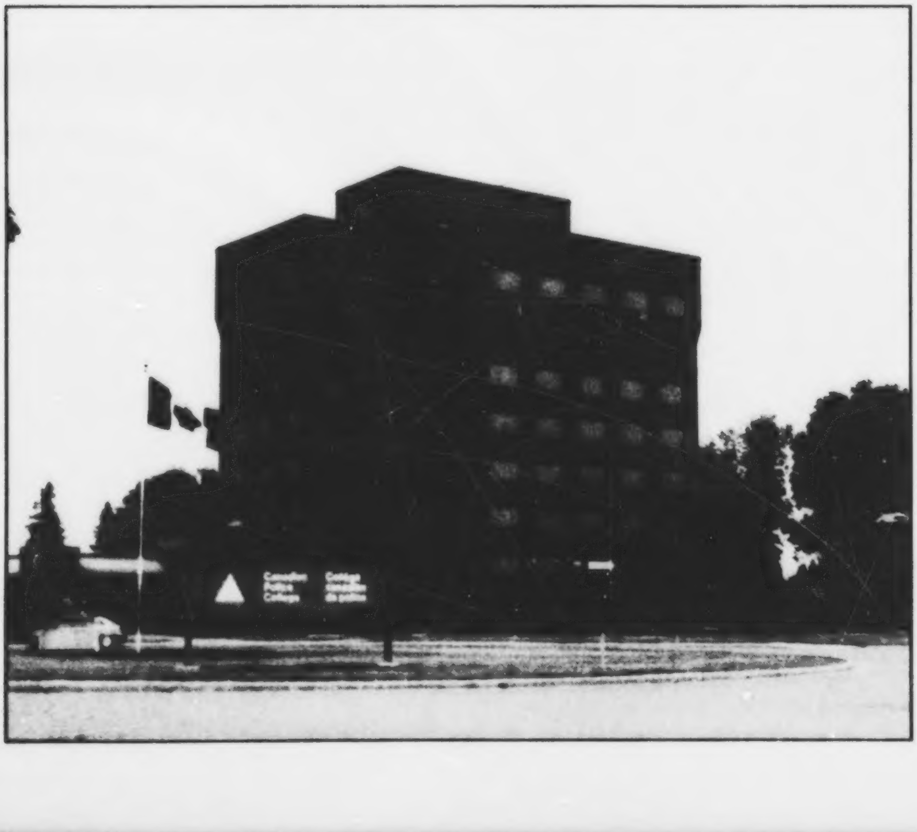


It would provide middle and senior management level training as well as more technical courses such as investigative and instructional techniques. In 1976, the CPC Advisory Committee agreed that the College would supplement the efforts of provincial law enforcement training institutes until they could develop similar training programs.

27.69 Many of these provincial institutions like the Ontario Police College, the Institut de Police du Québec and the B.C. Justice Institute can now offer comparable courses to those offered by the College, particularly in the area of management training. The College itself often assisted in establishing these programs in other institutes. As a result, the distinction between the College and other police training institutes has become less prominent. The Nielsen Task Force in 1986 observed that much more could be done to rationalize the training resources of the College, the RCMP, provincial institutes, municipal departments and community colleges.

27.70 Over the last decade, the curriculum of the College has not changed significantly. One reason for this has been the constant demand for existing programs. The College continues to place the majority of its effort on technical or specialized courses as shown in Exhibit 27.5. On the other hand, participants have indicated concern about the length and content of the College's highest-level management training program.

27.71 Although the College has periodically re-examined its ongoing activities against its original intended purpose, it has continued to provide virtually the same curriculum. The CPC Advisory Committee which provides guidance in this area is composed mainly of representatives from the law enforcement community. Our survey of committee minutes revealed that committee deliberations are generally focussed on the immediate concerns of seat allocation and annual training needs. The Advisory Committee has generally not addressed the overall direction of CPC.



Over the years, the CPC curriculum has remained somewhat the same (see paragraph 27.70).

From the beginning it was intended that the College play a leading role in the training of experienced police officers.

27.72 If the College intends to play a leading role in national law enforcement training, it will require advice from a wider spectrum of advisors in fields such as criminology, sociology, management, education and administration.

27.73 The RCMP should re-examine the philosophy and purpose of the College relative to its current curriculum and practices in order to determine the right composition of management and specialized training within its role as a national training institution.

27.74 The College should assess whether it would benefit from the participation of a wider spectrum of expertise on its Advisory Committee.

RCMP response: *Agree. In addition to the 1990/91 CPC Directional Statement, other initiatives have been or will be undertaken in such areas as: the reintroduction of the Directors of Police Training Conference and the recent initiation of the Futures Committee. The involvement of various disciplines such as law, criminology and sociology will supplement the activities of the existing CPC Advisory Committee.*

The College does not validate most of its training programs on a regular and systematic basis

27.75 Education and training practitioners agree that it is necessary to assess the validity of training programs from the perspective of relevancy, usefulness and overall effectiveness. Such an assessment needs to be conducted on a regular and systematic basis using recognized survey instruments.

27.76 While the College has the mechanisms in place to systematically validate its training courses, it has only on occasion undertaken validation surveys. Such information would assist the College in making decisions concerning future course content and overall curriculum.

27.77 If CPC is to have the necessary information upon which to effect changes to curriculum and course content it should validate its courses regularly using recognized methodology.

RCMP response: *Agree. This question has been addressed with the reinstitution of the Standards Analysis and Training Evaluation Committee in January of 1990. This committee is currently completing a multi-year plan for the systematic evaluation of all of the courses at the College.*

Identification Services

Background

27.78 Identification Services has been in operation for over 80 years. It is currently providing a number of services such as criminal history records and fingerprint identification that are essential to the day-to-day operations of law enforcement agencies. To provide these services, it maintains a number of central repositories. Criminal history record keeping and identification of fingerprints were its initial responsibilities in 1908. Exhibit 27.6 outlines its major central repositories and associated national services. Identification Services used approximately $24 million and 365 person-years in 1988/89 to provide these services to law enforcement agencies.

Observations and Recommendations

Client co-operation and participation are essential to the success of identification services provided by the RCMP

27.79 The success of the services provided by Identification Services to law enforcement

Exhibit 27.6

MAJOR CENTRAL REPOSITORIES - IDENTIFICATION SERVICES

Central Repository	Number of Records	Services Provided	Workload 1988/89
1. Criminal History Records	2.4 million	• past history of a criminal	622,840 files processed
2. Ten-Print Fingerprints (1)	2.4 million	• ten-print identification (2) • latent print identification (3)	603,032 received 14,180 received
3. Firearm Registry	950,000	• gun and name checks	62,619 applications processed
4. Criminal Mugshots	1.8 million	• mugshot requests	245,246 mugshots processed
5. Fraudulent Cheques	60,000	• criminal handwriting identification	14,500 cases completed

(1) *Ten finger impressions taken from those charged and/or convicted with offenses*

(2) *Identification of individuals charged with or convicted of indictable offences*

(3) *Unknown fingerprint impressions taken from the scene of a crime*

agencies depends in large measure on the co-operation and contribution of those agencies. For example, when an individual with a criminal record is convicted of a new crime, the police force involved must provide the new information to the RCMP to update the individual's file. This in turn ensures that complete and accurate information is available to others.

> *The success of Identification Services depends greatly on the co-operation and contribution of its users.*

27.80 In addition to contributing information, another dimension of co-operation is also necessary. Both the RCMP and its clients must agree upon technology (how information is retained and accessed) as well as technique (how data is prepared and provided by contributors) in order to make the service operational.

27.81 The tasks of acquiring the necessary level of co-operation from a vast number of clients with varying requirements and interests is formidable. Identification Services has used a survey approach to identify client needs and perceptions. Survey results are then analyzed, decisions are taken and users are informed and invited to provide feedback. This approach has been augmented with a series of periodic visits to individual clients.

27.82 The formation of the Identification Services Committee, Canadian Association of Chiefs of Police as well as the newly formed Canadian AFIS Users Group (members who have or plan to acquire RCMP compatible automated fingerprint identification equipment) provide another source of user input.

Despite RCMP's efforts, the mugshot system is not fully utilized (see paragraph 27.86).

27.83 Identification Services has not used an advisory committee which would permit clients to participate in the development of Identification Services policy and the future level of service. CPIC and CPC have utilized such committees to assist initially in the design of their services and then subsequently as an ongoing forum for user participation and policy input.

27.84 The following two examples illustrate the importance of co-operation, participation and timing in the provision of these services and how problems can develop.

Mugshot repository is not fully utilized

27.85 The provision of criminal mugshots is a national service which has not been fully utilized despite the efforts of Identification Services. Following a 1982 83 survey of all police forces that indicated the need for a national service, the RCMP developed a new criminal mugshot system for its central repository. By 1989, all regions with the exception of British Columbia and the Prairies had been converted to the new system at a cost of over $1.1 million.

27.86 A recent RCMP survey indicated that most police forces seldom used the RCMP central criminal mugshot repository. Police departments generally acquire mugshots directly from the last arresting police force. Some agencies have acquired their own computerized system to store mugshots locally.

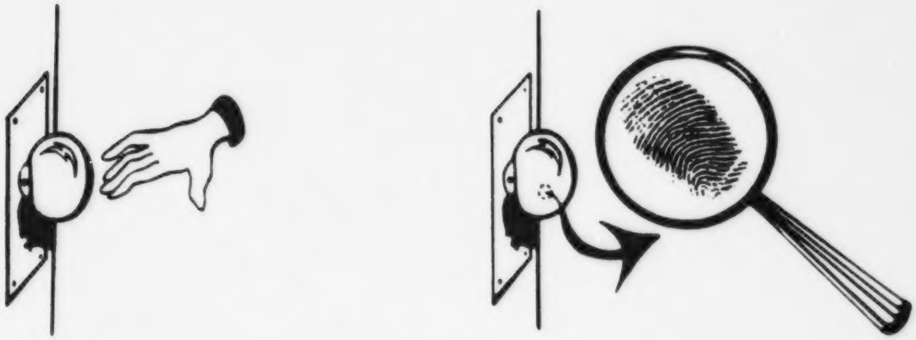
27.87 As a result, the RCMP central repository is neither complete nor up-to-date. RCMP Identification Services is aware of the problem and is reassessing the situation.

Latent fingerprint identification role is not clear

27.88 Some problems have also developed concerning the latent fingerprint identification service, one of the services provided as a by-product of maintaining a national repository of ten-print fingerprints. Ten-print fingerprints are

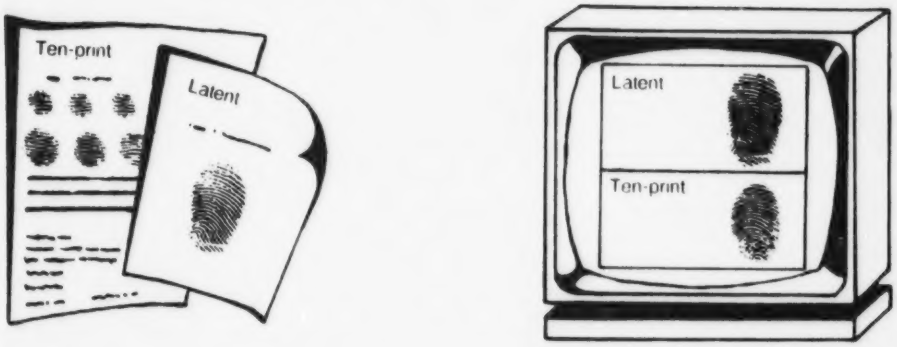
Exhibit 27.7

RCMP LATENT FINGERPRINT IDENTIFICATION



1. Fingerprint left at scene of crime

2. Print impression (latent) taken at scene of crime



3. Manual file search and comparison of latent and ten-print done by local police department

4. Automated file search and comparison of latent and ten-print done by RCMP

ten finger impressions taken from those charged with or convicted of indictable offenses. Because the RCMP is responsible for criminal history records, it uses ten-print fingerprints to positively identify an individual and ensure the complete accuracy of the individual's record.

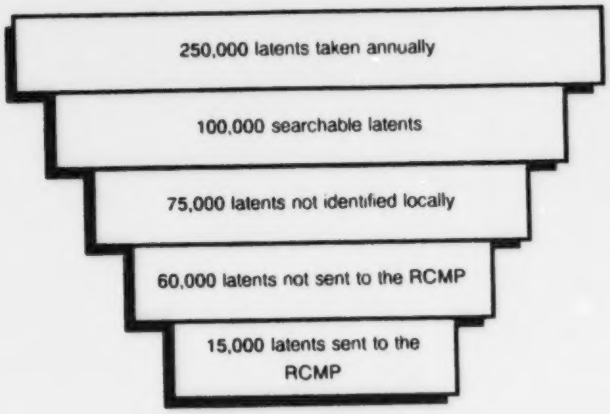
27.89 Latent fingerprints are unknown fingerprint impressions taken from the scene of a crime. The RCMP identifies latent prints by comparing them with its repository of ten-prints (see Exhibit 27.7). Exhibit 27.8 provides an overview of the estimated annual number of latent prints taken, searched and identified locally by police forces as well as the number of latent prints sent to the RCMP.

27.90 A number of reasons have been identified by the RCMP as to why many latent prints are not sent to them:

- latent prints are not of a sufficient quality to be searched through an automated system;

Exhibit 27.8

OVERVIEW - LATENT FINGERPRINT IDENTIFICATION IN CANADA


250,000 latents taken annually
100,000 searchable latents
75,000 latents not identified locally
60,000 latents not sent to the RCMP
15,000 latents sent to the RCMP

- police forces do not have the time to prepare these prints for search by the RCMP;

- police forces are unsure that these prints can be searched in the necessary time; and

- police forces may be less interested in sending the prints to the RCMP since the rate of identification is low (about 5 percent).

27.91 In 1986, the RCMP decided to upgrade its Automated Fingerprint Identification System (AFIS Phase IV) to improve both its latent and ten-print identification capability. The case study which follows outlines the specifics of this project. The plans for this initiative were communicated to all police forces in the fall of 1986.

27.92 While many police forces did not express concern, some major ones which had either acquired or planned to acquire their own AFIS system for local latent print search, raised a number of questions: the exact nature and level of service that they could expect from the RCMP after the upgrade; assurance that the planned RCMP level of service could meet their immediate latent search requirements; and the degree to which current technology could provide a system with a better capability to search latent prints.

27.93 RCMP responses to these questions outlined the level of service that AFIS Phase IV could provide. Information was provided concerning improvements to its current level of service as well as its potential to deal with latent prints not presently being sent to the RCMP.

27.94 The net result has been that two police forces have installed their own automated systems which are not compatible with the RCMP system, while three others have acquired equipment which is compatible. Other regional AFIS networks are being considered in the provinces of Alberta and Ontario whose databases will in part duplicate the RCMP ten-print central repository.

27.95 We recognize that with such evolving technology and the different perceptions of its users, it has been difficult to get all police forces to agree to the RCMP approach. However, in view of the risk concerning the proliferation of AFIS systems and its resulting cost implications, a more participative process will be necessary to formulate national policy and plans.

CASE STUDY: Upgrade of the Automated Fingerprint Identification System (AFIS Phase IV)

The RCMP has taken a phased approach in developing its fingerprint identification capability. The most recent phase has been an upgrading of its current Automated Fingerprint Identification System (AFIS Phase IV).

The results from a task force in 1984 and a user survey in 1985 indicated the following concerns regarding its existing fingerprint identification capability: the ability to handle an increasing workload within a reasonable turnaround time; the ability to search a latent print from a major crime through the entire fingerprint database; and the ability to provide an identification rate comparable to what could be achieved with the latest technology available.

In 1986, the RCMP outlined its AFIS Phase IV plan to (i) eliminate the manual classification for ten-prints, thereby reducing person-year requirements by 15 person-years at a saving of $517,500 per year; (ii) increase latent fingerprint search capability; and (iii) bring all AFIS databases on-line to allow concurrent searching, remote access and reduce turnaround time. Treasury Board gave effective project approval for an expenditure of $3.2 million to complete AFIS Phase IV during the period of 1 April 1987 to 31 March 1989.

As indicated in paragraphs 27.92 and 27.93 of this chapter, some major police forces raised questions concerning the exact nature and level of service that the RCMP could provide under the new system in order to decide the AFIS capability that they would require locally. Two police departments have already acquired AFIS equipment which is not RCMP compatible. Three others have acquired compatible equipment and other major police forces are considering their future plans.

The project completion date has been delayed to July 1990 and the project budget has increased to $4.4 million. In addition, it is costing the RCMP additional money for the loss of expected person-year savings. However, the RCMP has indicated that the vendor has loaned its equipment at no cost, to speed the conversion process. In addition, the vendor has agreed to convert 327,000 of the 2.4 million fingerprint cards to the new system at no cost to the RCMP.

While the Treasury Board-approved expenditure of $4.4 million covers the cost of equipment and software, other development costs such as card conversion and the rental of a data communication line to pilot test remote access with Vancouver City Police and RCMP "E" Division were handled within existing RCMP budget allocations.

At this time the complete cost of AFIS Phase IV has not been calculated and is unknown to the RCMP. Total costs would include capital costs, duty, taxes, exchange rate, conversion cost, site preparation and maintenance of not only the RCMP system but also the systems purchased by other police forces as well as the network to integrate them. In 1986 the RCMP estimated that if all Canadian police forces opted for their own AFIS systems (as opposed to networking with the RCMP) the total expenditures across Canada could easily exceed $50 to $60 million. The total future cost of the completed AFIS network as planned has not been identified.

In conclusion, it appears from the history of this project that RCMP management and AFIS clients have not always had the necessary depth of information at the right time to make informed decisions. More complete and timely information will be necessary in the future to ensure the success of the planned AFIS network.

27.96 The RCMP should implement a mechanism for developing Identification Services policy which would encourage law enforcement community participation, rationalize the growing proliferation of AFIS systems and ensure a shared future direction.

RCMP response: *Agree. The recently formed Canadian Association of Chiefs of Police Identification Services Committee and the Canadian AFIS Users Group will vigorously pursue participation by Canadian police agencies in the future role and direction of Identification Services CPS functions. Surveys and visitations to client sites by senior Identification personnel will monitor the success of programs as well as provide a vehicle for a shared future direction.*

Identification Services is taking steps to improve its performance measurement and budgeting practices

27.97 In the fall of 1988 Identification Services established a Planning Unit with the responsibility for developing a workable planning process as well as workload and performance indicators. Although it has developed some indicators, they require improvement. The Planning Unit is aware of these problems and is addressing them.

General Observations and Recommendations

27.98 The task of providing a number of services to a variety of users becomes more difficult when users are not required to use the services available or contribute to their cost. Factors such as: (i) the limits of federal funding; (ii) technological change;(iii) the availability of funds for local systems; (iv) client relations with the RCMP; and (v) the clarity of RCMP's role, all affect the success of these services.

27.99 The existence of RCMP's Law Enforcement Services facilitates operational communication and co-operation among law enforcement agencies across Canada. Services provided in such areas as information (CPIC), training (CPC) and fingerprint search (Identification Services) contribute towards consistency of approach across all of the provinces.

RCMP's Law Enforcement Services facilitate co-operation and communication among law enforcement agencies across Canada.

Law Enforcement Services is not an integrated entity

27.100 Law Enforcement Services tends to be more a series of organizational units that service law enforcement agencies than an integrated structure. Historically, each of the four support-service organizations has evolved independently, tending to deal directly with the law enforcement community. However, in some instances there is a need to co-ordinate their efforts.

27.101 An initiative in 1977 by the Commissioner to integrate these services both nationally and regionally through a network of advisory committees and regional co-ordinators was not implemented. The most recent organizational change has placed these organizations under a Deputy Commissioner who is also responsible for Protective Policing, an area which requires a great deal of ongoing managerial attention.

27.102 Ideally, support services should be provided by organizations which are responsive to the needs of their clients in order to ensure the proper quality and level of service. Without a charge for service, due regard for internal efficiency and economy must be an essential part of managing these organizations.

27.103 Many of the organizations audited were already working towards improvements in the area of performance measurement. There is, however, a great deal that still needs to be done to create a managerial climate which supports the use of valid performance indicators, accurately determines productivity, and holds managers and employees accountable for both the quantity and quality of their output.

27.104 During this audit the RCMP was unable to provide the total cost of these support services. It should be possible to identify, track and cost all support services provided to external users.

27.105 The RCMP should consolidate these services in such a manner so as to make them a distinct integrated RCMP entity capable of identifying its outputs, costs and level of performance.

RCMP response: *Agree. The RCMP accepts that enhanced co-ordination is desirable and will work toward that goal through examination of alternatives to provide a greater capability of identifying outputs, costs and level of performance.*

Clients are generally satisfied

27.106 In most cases, clients are generally satisfied with the quality and level of service they receive. If there are areas of concern, they relate to uncertainty about the future RCMP role, level of service and funding arrangements concerning these services.

What should the RCMP's future support service role be?

27.107 A contributing factor to these concerns is the manner in which each of the four organizations audited defines its services. In the absence of a clearly defined philosophy and set of approved guidelines for consistent operating behaviour, each organization has defined differently its level of service and applicable limiting conditions.

27.108 Changes in technology and law enforcement practices have affected these services over their history. Changes have occurred in their size, complexity and cost. Former manual and centralized services have been replaced by automated and decentralized services. However, policy adjustments have not kept pace with these changes.

27.109 The Solicitor General of Canada and the RCMP should re-examine current policy and practices concerning the RCMP's support services to ensure that the needs of the law enforcement community will be met in the future. To this end, the following questions should be explored.

- **What level of service will the RCMP provide in the future?**
- **What should the future cost arrangements be?**
- **How and to what degree should users participate in the future development of policy in these areas?**
- **What strategy will be necessary to take Law Enforcement Services into the future?**

RCMP response: *Agree. In consultation with the Solicitor General of Canada, the RCMP will examine its current policies and priorities concerning the delivery of services to the Canadian law enforcement community.*

28

Department of the Secretary of State

Citizenship

Department of the Secretary of State

Citizenship

Main Points

28.1 The Citizenship Act is difficult to administer, due to a lack of clarity in certain sections. Since 1985, the Department has considered amendments; however, as of 1 April 1990 no amendments had yet been tabled in the House of Commons (paragraphs 28.22 to 28.26).

28.2 Numerous changes are needed to the processing of applications for citizenship and proof of citizenship, such as an established standard turnaround time, better resource allocation, and improvements to the system of processing, to make operations more efficient and timely (28.37 to 28.53).

28.3 An increase in the time taken to issue proofs of citizenship resulted in a corresponding increase in the issue, free of charge, of Canadian citizenship confirmation letters. More than 10,000 confirmation letters were issued in 1989/90, causing a disruption to the processing of citizenship applications as well as carrying a risk that they may be fraudulently used (28.54 to 28.56).

28.4 A 13-month delay in implementing progressive increases in fees for citizenship services will have resulted, during the period 1988/89 to 1991/92, in foregone revenues of approximately $2.7 million (28.77 to 28.81).

28.5 The approval process for Citizenship Development grants and contributions is time-consuming and cumbersome. Approximately 20 percent of Native Friendship Centres financed by the Citizenship Development Program did not meet one of the program eligibility criteria, that of being located in an urban area (28.96 to 28.104).

28.6 As of 1990/91, Part III of the Estimates for Multiculturalism and Citizenship does not separately provide the operating costs of Citizenship Registration, making it impossible to know the total cost of this activity. Moreover, information on performance for Citizenship Registration and Promotion and for Citizenship Development activities is not disclosed (28.106 to 28.109).

Table of Contents

Paragraph

Introduction 28.7

Objective and Scope of Audit 28.17

Citizenship Registration and Promotion 28.20
    Background (28.20)

The Citizenship Act Needs to be Improved 28.22

Planning Process - Improvements are Necessary 28.28

Operational Efficiency and Effectiveness 28.34
    Considerable increase in turnaround time (28.35)
    No standards established for turnaround time (28.37)
    Poor resource allocation among offices (28.41)
    Allocation of citizenship judges between courts is not based on need (28.46)
    Registration process needs to be improved (28.52)
    Inadequate planning for data-processing requirements (28.58)
    Management information unreliable and seldom used (28.65)

Security and Control 28.68
    Risk of irregularities in use of citizenship cards (28.68)
    Problems identifying persons with a criminal record (28.71)

Delays in Implementing New Fee Schedule 28.77

Citizenship Development 28.83
    Background (28.83)
    Few changes in funded groups (28.85)
    Lack of specific criteria for evaluating applications (28.91)
    Approval process unnecessarily cumbersome (28.96)
    Some Native Friendship Centres did not meet a program eligibility criterion (28.102)

Information for Parliament 28.106
    Fragmented and incomplete (28.106)

Exhibits

28.1 Citizenship Registration - Brief Description of Application Processing
28.2 Citizenship Registration - Statistical Data
28.3 Sydney Registration Centre - Turnaround Time - Applications for Citizenship
28.4 Sydney Registration Centre - Turnaround Time - Proofs of Citizenship
28.5 Sydney Registration Centre - Backlog as of March 31 - Applications for Citizenship and Proofs of Citizenship
28.6 Delay in the Implementation of New Fees for Citizenship Registration - Chronology
28.7 Citizenship Development - 1989/90 Grants and Contributions Budget

Department of the Secretary of State

Citizenship

Introduction

28.7 The Citizenship sector of the Department of the Secretary of State is divided into two activities -- Citizenship Registration and Promotion, and Citizenship Development -- managed by an Assistant Under Secretary of State. Services relating to these activities are provided across Canada through 9 regional offices, 17 district offices and 30 citizenship courts, all reporting to the Assistant Under Secretary of State, Regional Operations.

28.8 **Citizenship Registration and Promotion.** The objective of Citizenship Registration and Promotion is to provide services for the acquisition and proof of Canadian citizenship, and other services mandated by the Citizenship Act.

28.9 Under the direction of the Registrar, Headquarters in Hull is responsible for the general management of operations. The Registration Centre in Sydney, Nova Scotia registers new citizens in the Citizenship Registration Index, prepares certificates of citizenship, issues proofs of citizenship for Canadian citizens and performs other related tasks.

28.10 For 1989/90, Citizenship Registration, including regional operations, involved total direct costs of approximately $20 million dollars, and used 366 person-years.

28.11 **Citizenship Development.** The objective of this activity is to foster full access to and participation in all social and cultural aspects of life in Canada for particular client groups, and to increase their knowledge and appreciation of Canadian society and its institutions.

28.12 Some programs are managed by Citizenship Development officers at the Department of the Secretary of State Headquarters; others have been decentralized and are administered through Regional Operations.

28.13 The Department awards grants or contributions, depending on the degree of control required over the project being funded. The 1989/90 Estimates indicate that of approximately $78.3 million authorized, $48.7 million was for grants and $29.6 million for contributions. Operating expenditures, including regional operations, were estimated at $16 million.

28.14 **Establishment of a new department.** In May 1989, Bill C-18 was tabled in the House of Commons, proposing the establishment of a new Department of Multiculturalism and Citizenship (DMC). As of 1 April 1990, the Bill had not been passed; however, under the new structure Citizenship Registration and Promotion is expected to be transferred to DMC, while the Department of the Secretary of State would provide support services to and deliver the programs of the new department, through its regional operations.

28.15 At the time of our audit, there had been no changes to the administrative and operational structure in which programs were managed, although Part III of the Estimates for 1989/90 and 1990/91 had been prepared for the new DMC.

28.16 We audited the Citizenship activity of the Department of the Secretary of State in connection with our audit of the Immigration sector of the Canada Employment and Immigration Commission, covered in Chapters 12 to 15 of this report. For permanent residents who qualify, registration as Canadian citizens is the final stage of the immigration process.

Objective and Scope of Audit

28.17 The main objective of the audit was to determine whether the Citizenship Registration and Promotion and the Citizenship Development activities had been managed with due regard to economy and efficiency and in accordance with applicable authorities. We also examined whether the Department had procedures in place to measure effectiveness.

28.18 Our audit covered the operations of Citizenship Registration, excluding the promotion aspect, as well as the management and control of Citizenship Development grants and contributions. We also examined information for Parliament in Part III of the Estimates, with respect to both activities.

28.19 We visited Headquarters, three regional offices, six citizenship offices and courts, and the citizenship registration centre in Sydney, Nova Scotia.

Citizenship Registration and Promotion

Background

28.20 Persons born outside Canada whose parents are not or were not Canadian citizens may become Canadian citizens if they meet the requirements of the Citizenship Act. The requirements include having been lawfully admitted to Canada for permanent residence, having accumulated at least three years of residence in Canada within the four years immediately preceding the date of application, and having an adequate knowledge of English or French and of Canada.

28.21 Exhibit 28.1 outlines the steps involved in processing applications for Canadian citizenship and for proof of citizenship and Exhibit 28.2 shows the number of applications processed since 1985/86, with related costs and person-years.

The Citizenship Act Needs to be Improved

28.22 The Citizenship Act was amended in 1977 and, among other changes, certain conditions of residence in Canada were established. The Regulations under the Citizenship Act provide additional details on the administration of this Act.

Needed amendments to the Citizenship Act are long overdue.

28.23 Since 1985, the Department has been considering the need for further amendments to the Citizenship Act and, in 1987, asked for public input on several of its aspects in a document entitled "Citizenship '87· Proud to be Canadian".

28.24 In its February 1988 report on citizenship registration, the Department's Program Evaluation group reported: "There is a strong argument for selective improvements to the Citizenship Act and Regulations. This has been a long-term situation, which has not been completed in a timely manner to date".

28.25 Our audit confirmed that because the term "residence" is open to interpretation, the effect has been a broadening of the original notion of residence for citizenship purposes.

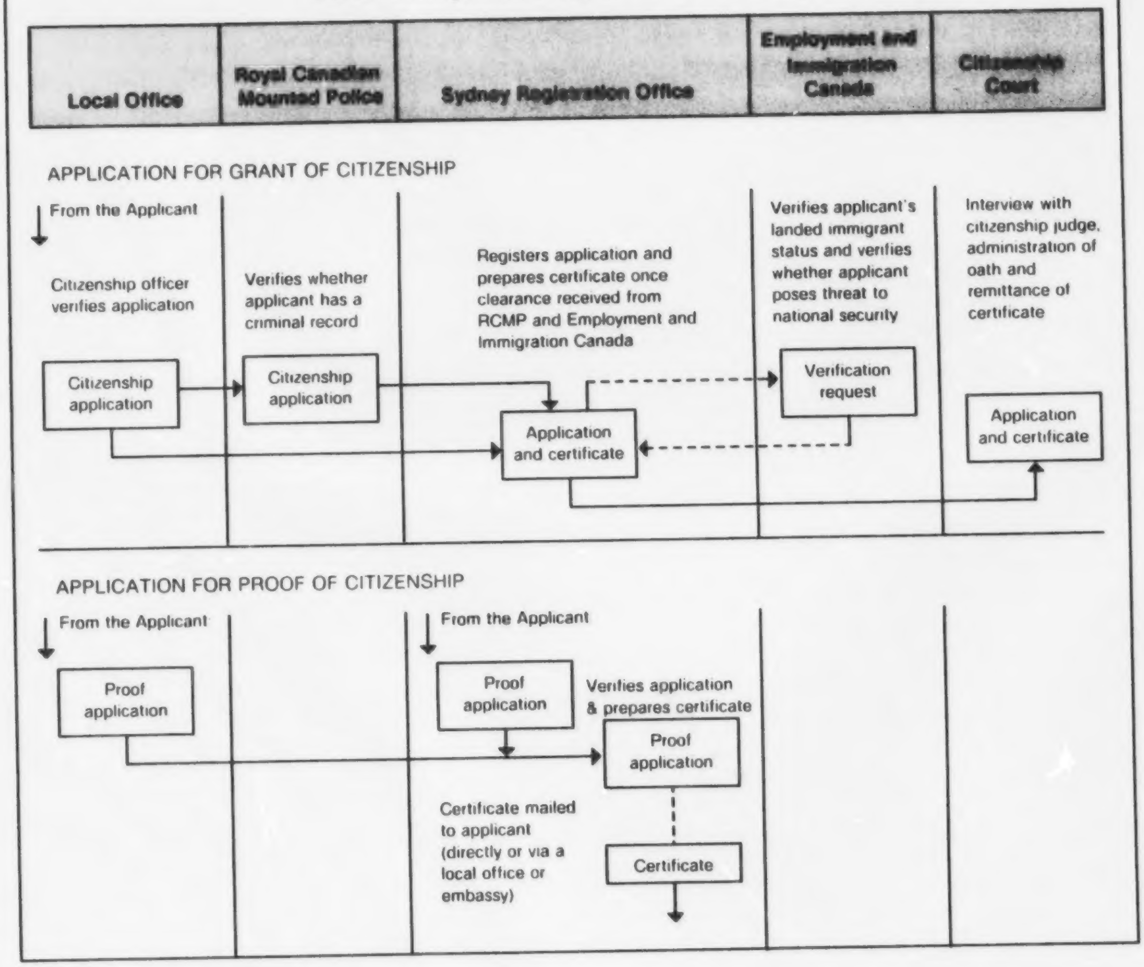
28.26 As of 1 April 1990, no bill had been tabled in the House of Commons to amend the legislation.

28.27 The Department should recommend that the necessary amendments to the Citizenship Act be tabled as soon as possible.

***Department's response**: The Department continues to recognize the need for Citizenship Act amendments. In 1988, Cabinet approved a package of amendments based on the consultations and submissions, which was not*

DEPARTMENT OF THE SECRETARY OF STATE **Exhibit 28.1**

CITIZENSHIP REGISTRATION
Brief Description of Application Processing


Local Office
Royal Canadian Mounted Police
Sydney Registration Office
Employment and Immigration Canada
Citizenship Court
APPLICATION FOR GRANT OF CITIZENSHIP
From the Applicant
Citizenship officer verifies application
Verifies whether applicant has a criminal record
Registers application and prepares certificate once clearance received from RCMP and Employment and Immigration Canada
Verifies applicant's landed immigrant status and verifies whether applicant poses threat to national security
Interview with citizenship judge, administration of oath and remittance of certificate
Citizenship application
Citizenship application
Verification request
Application and certificate
Application and certificate
APPLICATION FOR PROOF OF CITIZENSHIP
From the Applicant
From the Applicant
Proof application
Proof application
Verifies application & prepares certificate
Proof application
Certificate mailed to applicant (directly or via a local office or embassy)
Certificate

introduced as Parliament was dissolved. The Government, nevertheless, is still committed to making changes to the Act, and reiterated in the 1989 Speech from the Throne its intention to introduce a "revitalized Citizenship Act". In June 1990, Cabinet agreed that a new and expanded Citizenship Act be put forward this year.

Planning Process - Improvements are Necessary

28.28 The Department's planning process was revised and formalized in 1988 to resolve the following problems:

- poor linkage between strategic and operational planning;

DEPARTMENT OF THE SECRETARY OF STATE **Exhibit 28.2**

CITIZENSHIP REGISTRATION

Statistical Data

Description	1985/1986	1986/1987	1987/1988	1988/1989	1989/1990
Citizenship applications	94,977	91,259	90,160	87,947	106,048
Proof applications	41,792	48,714	51,901	50,056	54,197
Record searches	38,092	37,223	41,406	46,769	46,181
Direct costs	$ 15,082,281	$17,565,565	$18,307,963	$17,509,835	$20,179,305 (1)
Indirect costs	$ 9,039,000	$10,362,000	$10,909,000	$10,588,000	$10,136,000 (1)
Income	$ 4,208,037	$4,237,822	$4,221,481	$4,207,112	$5,524,960
Recovery %:	17.4%	15.2%	14.4%	15.0%	18.2%

Person-years:					
Hull:	382	45	45	45	45
Registration Centre:	(2)	122	122	122	122
Regions, including citizenship judges:	(2)	204	199	199	199
Total :	382	371	366	366	366

(1) Estimates
(2) Prior to 1986/87 person-years were reported in total

- insufficient interaction among management of the different programs; and
- lack of continuity between short- and long-term plans.

28.29 Although we noted improvements in the development of the strategic plans for 1989/90 and 1990/91, such as prior consultation with regional managers, in our opinion the desired improvements to the new planning process have been only partly achieved.

28.30 For instance, objectives were neither quantified nor assigned priorities so that strategic and operational planning could be properly linked. We found no reference to the anticipated increase in citizenship applications or to related geographical patterns of settlement of permanent residents over the coming years. In addition, the strategic planning process did not integrate the planning for data-processing services with program plans. As a result, this information could not be used in allocating resources among sectors in accordance with approved strategies.

28.31 Our audit identified a number of situations that could have been avoided or rectified with adequate planning, namely:

- the number of applications for citizenship on hand which increased from an average of 12,000 during the fiscal year 1986/87 to more than 50,000 since the fiscal year 1988/89. Although we are informed by the Department that this increase is mainly due to delays by the Canadian Security Intelligence Service in verifying the security risk of applicants, it remains that the Secretary of State did not implement appropriate operational measures to reduce this number of applications on hand;

- a lack of established standards of service, recognized only after long service delays which led to the creation of a task force in October 1989 to study the situation; and
- a delay in finding alternatives to replace the present data-processing system.

28.32 We recognize that the delay in setting up the new plan of organization for the two departments has created a climate of uncertainty and made the implementation of the planning process difficult. Nevertheless, we believe that improvements are possible and necessary, and would result in a more efficient use of resources.

28.33 The Department should:

- **quantify its operational objectives and establish their order of priority; and**
- **link operational planning, including planning for data-processing services, with strategic planning.**

Department's response: *The Department notes that the recommendations of the Auditor General are consistent with the conclusions already reached by departmental management and support the planning revisions already taken.*

With respect to the processing of citizenship applications, service levels provided by external agencies such as Canadian Security Intelligence Service (CSIS) and the Royal Canadian Mounted Police (RCMP) - over which the Department has no control - are key to the overall timeframe involved.

In 1987/88 CSIS, without advance notification, informed the Department of its intention to cease to provide security screening for citizenship applicants, owing to a change in security screening priorities by government. As a direct result, until the implementation of new screening procedures in January 1989, citizenship applications were not being processed, resulting in the rapid buildup of a backlog. Throughout 1989/90 carefully planned strategic measures without benefit of additional resources, were undertaken. However, over the past 6-8 months primarily because of an unforeseen lack of criminal record clearances from the RCMP, there has been no real reduction of the backlog. Notwithstanding, some 102,000 grant of citizenship applications and 53,000 proof of citizenship applications were processed in 1989/90.

These problems have been addressed through the 1990/91 planning exercise and through reallocation of resources and improved management, and it is expected the backlog will be reduced to under 25,000 by year end, thereby resulting in significant improvement in turn around time for processing of applications.

As well, during 1989/90, the Information Management Strategic Plan 1990-1995 was completed, addressing among other things alternatives for replacing the present data-processing system.

Operational Efficiency and Effectiveness

28.34 Some key aspects of any organization's efficiency in providing direct service to the public are:

- determining the level of service in terms of maximum waiting time to be served and total elapsed time for delivering the service;
- forecasting workload, and converting it into person-years through the use of reliable standards of productivity and levels of service, taking into account the maximum acceptable backlog of cases;
- organizing work through efficient systems, procedures, work methods and use of appropriate equipment; and
- monitoring and controlling operations through the use of performance information.

Considerable increase in turnaround time

28.35 We observed an increase, over the past four years, in the time required for granting citizenship and issuing proof of citizenship.

Since 1986, turnaround time for Citizenship services has increased considerably.

28.36 In 1986, approximately 91 percent of applications for proof of citizenship took less than nine weeks to process; in 1989, only 30 percent were processed in the same length of time. The Department recognizes that the delay in the processing of proof of citizenship is a major source of dissatisfaction to the public. As for citizenship applications, the average turnaround time increased from 30 to 40 weeks over the same period. This does not include the waiting period for an appointment with a citizenship officer, which can range from one to 24 weeks. Data on waiting periods are not being captured by the management information system. Exhibits 28.3 and 28.4 show the increased turnaround time at the registration centre.

No standards established for turnaround time

28.37 Because management had no established standards for turnaround time, it was unable to quickly identify problems and their causes, and apply appropriate corrective measures. As mentioned in paragraph 28.31, a departmental task force was set up in October 1989 to look into the matter.

28.38 In January 1990, the task force proposed that the turnaround time for citizenship applications should not exceed 40 weeks; applications for proof of citizenship should be processed in a maximum of 14 weeks over the short term, with a medium-term objective of six weeks (including a maximum four-week waiting period for an appointment with a citizenship officer). The task force indicated that achieving a six-week turnaround time for proof of citizenship would require significant changes to the procedures then in place. As of 1 April 1990, no standard turnaround time had been adopted by the Department in response to the task force report.

28.39 We acknowledge that management is considering the establishment of standards of service. However, the proposed standards are based mainly on the results achieved in 1986. They have not been reviewed in the light of public expectations and of the possible automation of the citizenship registration process.

28.40 In order to improve service to the public, the Department should establish service standards, including waiting and turnaround times, for applications for citizenship and for proof of citizenship and should monitor the extent to which it is meeting those standards.

Department's response: *As a result of the recommendations made by the task force mentioned in paragraph 28.38, the Department has undertaken a project (Citizenship Registration System and Processes) to develop an automated system for citizenship processes and to effect the necessary adjustments to workflows and to the manual processes in support of the automated system.*

Such factors as economy, adherence to standards of service (throughput times) and the security and legislative requirements will be under consideration.

Poor resource allocation among offices

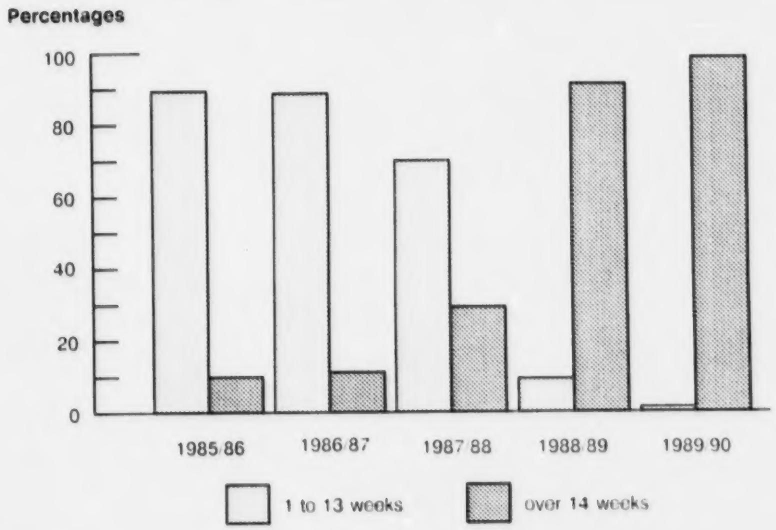
28.41 In the absence of established standards of productivity and levels of service, allocation of resources among citizenship offices and courts was not carried out so as to achieve efficient and effective service delivery.

28.42 In fact, in 1989 90 we observed differences of up to 92 percent in the ratio of forecasted volumes of applications to allocated person-years, among the 19 citizenship offices

DEPARTMENT OF THE SECRETARY OF STATE

Exhibit 28.3

SYDNEY REGISTRATION CENTRE
Turnaround Time - Applications for Citizenship (1)



(1) Yearly averages

and courts expected to each handle at least 2,000 applications during the year.

28.43 The following examples illustrate the lack of relationship between the allocation of person-years and the volume forecasts for 1989/90:

FORECASTS FOR 1989/1990

Citizenship office	Volume (Note 1)	Person-years	Volume P/Ys
North York	4969	8.0	621
Edmonton	5898	9.0	655
Surrey	3486	5.0	697
Calgary	6182	8.5	727
Vancouver	13162	18.0	731
Waterloo	3598	3.5	1028
Oshawa	3238	3.0	1079
Scarborough	9580	8.0	1198

Note 1: Volume includes applications for citizenship and proofs of citizenship.

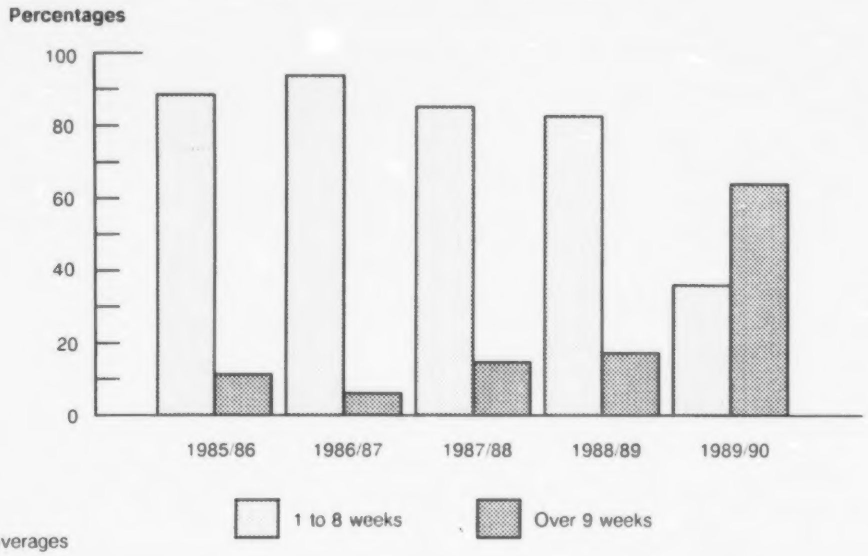
28.44 We noted that the waiting period for an appointment with a citizenship officer was 20 weeks at the Scarborough office, while in Edmonton appointments could be made for the same day. As mentioned in paragraph 28.36, information on waiting periods was not included in management reports.

There is a lack of relationship between the allocation of person-years and the volume forecasts among offices. As a result, an applicant could wait up to 20 weeks for an appointment.

DEPARTMENT OF THE SECRETARY OF STATE

Exhibit 28.4

SYDNEY REGISTRATION CENTRE
Turnaround Time - Proofs of Citizenship (1)



(1) Yearly Averages

28.45 In order to better allocate resources and improve service to the public, the Department should establish and use productivity standards.

Department's response*: The Department continues to strive for improved allocation of resources and has always been concerned about improved service to the public. We have completed a number of steps to rationalize resource use and productivity and have embarked on a feasibility study to automate citizenship processes and improve service to the public.*

Allocation of citizenship judges between courts is not based on need

28.46 Under the Citizenship Act, the Governor in Council may appoint any Canadian citizen to be a "citizenship judge." Citizens may be appointed to sit full time or part time and the term (generally from three to five years) is renewable. In January 1990, there were 32 full-time and 17 part-time citizenship judges. In 1989/90, salary costs for judges approached $2.5 million.

28.47 For each cleared applicant, court officials schedule a hearing with a citizenship judge. The judge ensures through this hearing that, among other requirements, the applicant has a sufficient knowledge of Canada and of one of the official languages and satisfies the criteria for residency in Canada. In most cases, the judge approves the applications. It is the Citizenship officer who is empowered to grant citizenship and who does so after the judge's examination and approval. A presentation ceremony before a judge is then scheduled in a citizenship court where each applicant takes the oath of citizenship and is presented with a certificate of Canadian citizenship.

28.48 In 1988/89, the forecast number of citizenship court hearings varied from court to court, from 200 to 2,500. We noted that appointments of citizenship judges did not

Certificate presentation at an oath of citizenship ceremony (see paragraph 28.47).

always represent the most efficient allocation of judges among courts. Although in the last few years there has been a tendency to appoint part-time judges, we consider that there is still room for improvement. For example, three courts handling less than 750 hearings per year each have a part-time judge while three other courts with similar workloads each have a full-time judge.

28.49 The current process requires that applicants for citizenship appear at least three times at the citizenship court, after obtaining the necessary documentation and making an appointment. The first visit involves a citizenship officer; the second and third include the citizenship judge. This process is lengthy, as mentioned in paragraph 28.36, and cumbersome for both the Department and the applicant, who often must be absent from work.

28.50 We believe that the process for granting citizenship could be simplified. For example, the hearing with the judge could be held immediately following the interview with the citizenship officer, and some duties now performed by the judge could be transferred to that officer. In fact, in 1985 the Nielsen Task Force recommended that a large part of the work of citizenship judges be done instead by citizenship officers, which would produce considerable savings. To date, judges' duties have not been re-defined; however, such changes would necessitate amendments to the Citizenship Act.

28.51 The Department should:

- **allocate citizenship judges on the basis of need; and**

- **examine alternatives for simplifying the process of granting citizenship, for example by re-assigning some of the duties now performed by citizenship judges to citizenship officers.**

Department's response: *It should be noted that citizenship judges are appointed by Order in Council. When appointments are made, consideration is given to needs in the particular court's area of service, and where the need does not justify a full-time judge, part-time appointments are made. It is important to note that citizenship judges have other duties to perform outside of their court's quasi-judicial* *functions, such as the promotion of citizenship to the broad community. There is a need to ensure, given the nature of our country, that all regions are served.*

The re-assignment of some of the judges' duties to Citizenship officers has been considered and discussed in the past. For example, an independent review by Dr. S. Sutherland of Carleton University noted that certain key functions judges perform, such as encouraging integration and commitment of the citizenship applicant to Canada, would be lost. The major project referred to in 28.40 will review all facets of the citizenship process with a view to making it more efficient.

Registration process needs to be improved

28.52 At the registration centre, we found that processing units made no distinction between applications for citizenship and for proof of citizenship. In a normal situation the rule has been first come, first served. Consequently, processing of applications for proof of citizenship may be delayed while applications for citizenship are verified, a procedure which entails third-party intervention (the Royal Canadian Mounted Police and Employment and Immigration Canada).

28.53 Given this practice, the backlog of applications for citizenship proof was not reduced when the processing of applications for citizenship was slowed by delays in the verification of their security aspects, and by the implementation of the new verification process at Immigration (see Exhibit 28.5). In our opinion, separate processing for applications for citizenship and for proof of citizenship, which are distinct operations, would allow for improved control over production and turnaround time.

28.54 The slowdown in service has meant that requests for citizenship confirmation letters have increased by 33 percent in the past four years. These letters, confirming the date when Canadian citizenship was granted, are provided free of charge when an applicant for proof of citizenship demonstrates that there is an urgent interim need (obtaining a passport, for example). More than 10,000 letters were issued in 1989 90.

28.55 We are concerned by the use of these letters. Confirmation letters mean that the

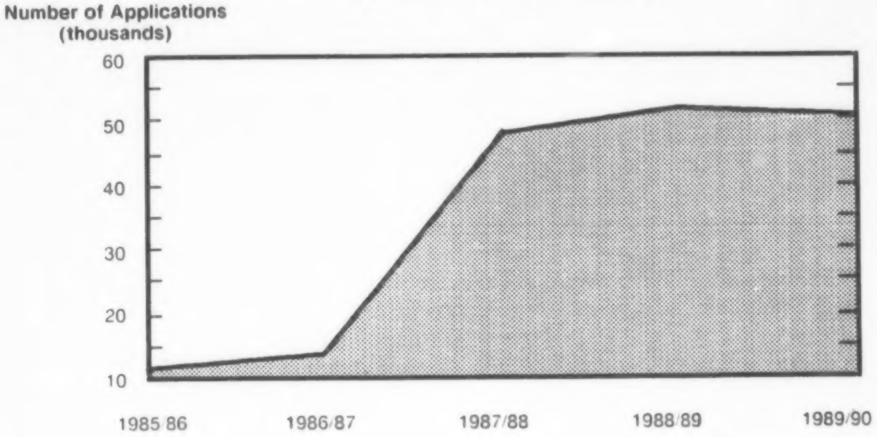
File allocation unit in the Sydney, N.S. Operations Centre (see paragraph 28.53).

DEPARTMENT OF THE SECRETARY OF STATE

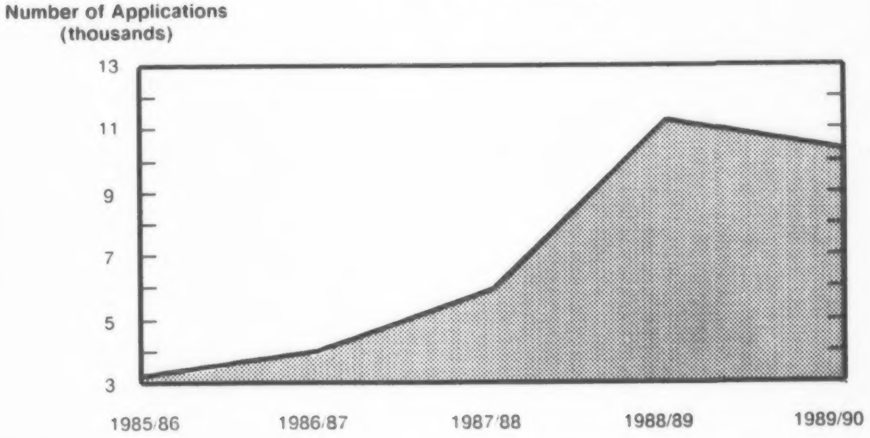
Exhibit 28.5

SYDNEY REGISTRATION CENTRE
BACKLOG AS OF MARCH 31

Applications for Citizenship



Proofs of Citizenship



applicant's file must be verified twice; once when the letter is issued, and again when the proof of citizenship is issued. Moreover, this work is done by the most congested processing unit in the registration centre, causing a disruption to the processing of citizenship applications.

28.56 Furthermore, because there is no provision for identification in confirmation letters (that is, no photograph required) and the information can be altered, there is a very real risk of fraudulent use. In fact, the Department informed us that the United States Immigration and Naturalization Service has stopped accepting these letters as sole proof of Canadian citizenship.

28.57 The Department should:

- **consider improvements to the system of processing applications for citizenship and for proof of citizenship, such as separate processing for these two distinct operations; and**

- **minimize the issuance of confirmation letters by taking less time to process proof of citizenship.**

***Department's response**: Separate processing of applications for grants of citizenship and for proofs of citizenship is presently being considered in conjunction with the Citizenship Registration System and Processes Project feasibility study.*

A new policy to address the concerns with regards to the issuance and security of confirmation letters has been developed and circulated to other related federal departments for comment. It is anticipated that this new policy will be put into effect in 1990/91.

Inadequate planning for data-processing requirements

28.58 We noted a delay in improving automation of the citizenship registration process. We attribute this delay to inadequate planning and to a failure to establish priorities for data-processing requirements.

28.59 To optimize performance, it is necessary to define user and equipment requirements, streamline the data entry process, improve communication, and determine and evaluate alternatives to meet those requirements.

Operational systems have not kept pace with technological improvements.

28.60 Before 1983, basic data on Canadian citizens registered in the Citizenship Registration Index (CRI) were kept manually on cards. Subsequently, these cards were converted to microfiches and the CRI was computerized. All the supporting documentation from the applicants is microfilmed. Citizenship offices in Regional Operations have no computer equipment; all work must be typed. File inquiries to the registration centre are generally made by telephone, since the offices are not equipped with an on-line system.

28.61 We observed that consulting the microfiches incurs considerable recurring costs in salaries and systems maintenance, which we estimate at $200,000 per year. In addition, with only part of its records computerized the Department cannot make other improvements, such as decentralized access to the Citizenship Registration Index, which could improve turnaround time.

28.62 It is our understanding that the Department is considering acquiring new computer equipment and converting its present system's software to a new computer language, without first having defined user requirements and evaluated alternative solutions, such as sharing Immigration's data bank.

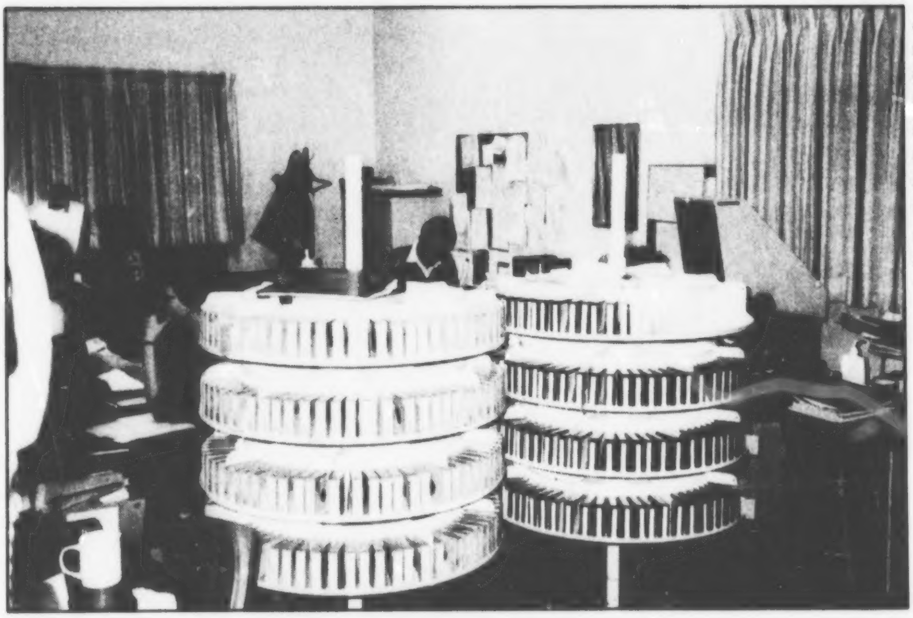
28.63 The conversion of this present outmoded system will require approximately 12 person-years and several years of development, implementation and training. In our opinion, this could turn out to be costly and shortlived given the forecasted increase in the levels of immigration, which will result in a larger volume of citizenship applications.

28.64 The Department should:

- **consider computerizing the basic data currently stored on microfiches;**

- **clearly establish user requirements for registration of applications for citizenship and processing of proofs of citizenship; and**

- **complete a feasibility study to determine economical and efficient alternatives for**



All registrations entered in the Citizenship Registration Index before 1 June 1983 are on microfiches and must be accessed manually (see paragraph 28.60).

automating its citizenship processing system to meet user requirements.

***Department's response**: We agree. In the past, the Department has considered the computerization of data currently stored on microfiches. However, the costs for the process were found prohibitive. With the advent of technology such as CD-ROM, this possibility will be investigated as part of the previously mentioned feasibility study already undertaken to develop and evaluate options for the delivery of citizenship registration services. User requirements are also being taken into account and a rigorous process of consultation with users was put into place in the fall of 1989 to ensure their inclusion.*

Management information unreliable and seldom used

28.65 We noted that monthly management production reports (called PULSE reports) contained several errors which had remained undetected or uncorrected for several months. Furthermore, most court managers told us they made little use of these reports because they found them difficult to understand or they already had the information. These monthly reports were usually prepared two or three months late, reducing their usefulness.

28.66 Also, twice each year, the management of Citizenship Registration compares Regional Operations' results to forecasts included in a memorandum of understanding between Secretary of State Citizenship Registration and Regional Operations. We noted that although these reviews have found results to be substantially short of forecasts, Regional Operations has not been required to give an explanation so that any necessary corrective measures could be taken.

28.67 The Department should:

- **review its management information system to ensure that it meets user requirements and produces reports which are reliable and on time; and**
- **ensure that differences between forecast and actual results are analysed and that corrective action is taken where necessary.**

***Department's response**: Significant upgrades of the management information system were* *made throughout 1989/1990 and 1990/1991 which improved and streamlined the presentation of the report. As a result, accurate and timely reports are currently being produced since 1990/1991. Departmental requirements for Citizenship Management information will continue to be reviewed in conjunction with the feasibility study on the Citizenship Registration System and Processes.*

Also, in April 1990, a new memorandum of understanding has been initiated between the Citizenship Registration and Promotion Branch and Regional Operations. This comprehensive agreement provides for improved variance analysis and accountability.

Security and Control

Risk of irregularities in use of citizenship cards

28.68 We found that no procedure exists for informing the Passport Office, and Customs and Excise, of the identification numbers on cards reported lost or stolen, to prevent their fraudulent use in obtaining passports or travelling abroad.

The Citizenship card represents a high risk of falsification.

28.69 Each year, the Department must replace some 24,000 citizenship cards reported lost or stolen, accounting for nearly 50 percent of applications for proof of citizenship. For several years now, the Citizenship sector has received reports that fraudulently acquired citizenship cards have surfaced; the cards currently issued carry a high risk of being falsified. As of 31 March 1990, corrective measures had not been implemented.

28.70 The Department should:

- **improve the security features of the citizenship cards; and**
- **inform the Passport Office and Customs and Excise of the identification numbers on cards reported lost or stolen.**

***Department's response**: We agree. A new security feature for citizenship cards currently being tested stemmed from ongoing discussions with the United States Immigration Naturalization Service and was developed in conjunction with the RCMP.*

The Department will continue actions currently in progress to improve the security features of the citizenship card. As well, while attempts have been initiated in the past, the Department will undertake to re-establish with the Passport Office, and initiate with Customs and Excise, the process of providing identification numbers for citizenship cards reported lost or stolen.

Problems identifying persons with a criminal record

28.71 The Royal Canadian Mounted Police (RCMP) verifies whether an applicant for Canadian citizenship has a criminal record and provides this information to the Secretary of State.

28.72 We reviewed the agreement between the Department of the Secretary of State and the RCMP to ascertain whether it reflects the requirements of the Citizenship Act and specifies the level of service the RCMP is to provide. However, we did not assess the quality of the work performed by the RCMP.

28.73 The current agreement, more than eight years old, does not specifically address the turnaround time for RCMP services rendered to Citizenship. The average time needed for RCMP investigations rose considerably in 1989/90, from four to twelve weeks.

28.74 In all reports on citizenship applicants, the RCMP cautions that its investigations are conducted solely on the basis of the name on the application form, and that positive identification can be made only with fingerprints.

28.75 When the RCMP suspects that a citizenship applicant may have a criminal record, it asks that the appropriate Citizenship office obtain the applicant's fingerprints for positive identification. The Citizenship office forwards the request to the applicant; if two requests do not produce a response the application is considered to have been abandoned. The Department does not provide this information to the RCMP as a basis for investigating the possibility of any false representations by the applicant, which could lead to prosecution under the Citizenship Act or for some other indictable offence under another federal statute, such as the Immigration Act. The Department estimates that there were 65 such abandonments in 1988/89.

28.76 The Department should:

- **review the terms of its agreement with the RCMP and consider adding a provision for turnaround time;**
- **consider routinely requesting fingerprints of all applicants for Canadian citizenship, to ensure positive identification; and**
- **notify the RCMP as soon as possible of all citizenship applications abandoned as a result of a request for fingerprints.**

Department's response: *We agree. Presently, the Department and RCMP are reviewing the terms and conditions of the current agreement.*

The Department is considering, through ongoing meetings with the RCMP, a proposal to request fingerprints from all applicants for Canadian citizenship.

The policy on abandonment of Citizenship applications has been reviewed with the RCMP and they will be notified of abandoned cases, as mutually agreed to.

Delays in Implementing New Fee Schedule

28.77 In keeping with the government's objective to recover a higher proportion of the cost of its services through increased fees to users of those services, the Department has taken steps to increase the revenues from awarding citizenship and issuing proof of citizenship. For 1989/90, the $5.5 million recovered represented approximately 18.2 percent of total costs (see Exhibit 28.2).

28.78 In December 1986, Treasury Board (TB) notified the Department that it had set an objective of increasing revenues from Citizenship Registration by $2 million per year, beginning in 1987/88.

28.79 It was not until 1 May 1989 -- more than two years later -- that the new fees were implemented. Exhibit 28.6 provides a chronology of the events.

28.80 The 13-month delay in beginning the progressive fee increases, as of May 1989 instead of April 1988 (as proposed by the Department and approved by TB), will have resulted in around $2.7 million in foregone revenues from 1988/89 to 1991/92. We attribute this delay to the Department's tardiness in submitting its revenue plan to TB, and to the fact that its March 1988 submission failed to take into account the time that would be required to have the new fees approved and implemented.

The delays in applying new fee increases will have resulted in foregone revenues of approximately $2.7 million.

28.81 Furthermore, to meet TB's revenue objective the Department showed, in its March 1988 submission to TB, 31,700 more citizenship applications from 1988/89 to

DEPARTMENT OF THE SECRETARY OF STATE **Exhibit 28.6**

DELAY IN THE IMPLEMENTATION OF NEW FEES FOR CITIZENSHIP REGISTRATION
Chronology

11 DECEMBER 1986	Treasury Board (TB) approves a departmental objective of $2 million in increased revenues per year for Citizenship Registration beginning in 1987/88. It withholds $2 million from the 1987/88 Estimates until the Department submits a plan for attaining this objective.
17 NOVEMBER 1987	Submission to TB of a revenue plan proposing phased rate increases effective 1 April 1989; this would produce $440,000 in increased revenues during 1989/90.
17 DECEMBER 1987	Conditional approval by TB. TB releases the $2 million withheld for 1987/88, but withholds $2 million in 1988/89 departmental expenditures pending submission by the Department of a revised plan aimed at meeting the $2 million objective.
22 MARCH 1988	Submission to TB of a proposal for a phased rate increase effective 1 April 1988, instead of 1989, along with a request that TB release the $2 million withheld for 1988/89.
5 MAY 1988	TB approval received.
1 MAY 1989	Rate increase implemented 13 months after the 1 April 1988, the date mentioned in the 22 March 1988 submission to TB.

1991/92 than forecast by the Department's internal forecasting system. For each of those years, this resulted in an overstatement of its revenues.

28.82 The Department should, prior to the subsequent revision of its fee structure to be implemented 1 April 1994, allow for the time required to approve and implement its fee schedule.

Department's response: *The Department took all necessary steps to submit its revenue plans but events beyond our control overtook our efforts. The 1988 federal election and appointment of a new minister delayed implementing the new fee schedule. In addition to reliance of the forecasting system mentioned, the Department must apply managerial judgment in establishing its forecast.*

The variance of 31,700 referred to in the report represents 7.3 percent over a four-year period for an average of 1.8 percent per year. The Department considers this variance acceptable.

Citizenship Development

Background

28.83 The terms and conditions of each grants and contributions program under Citizenship Development are approved by Treasury Board. The Department's approval process for grants and contributions includes reviews of funding requests by each level of authority up to the Secretary of State, who gives final approval. Generally, for each of the last five years the proportion of expenditures on grants and contributions has remained at 60 and 40 percent respectively.

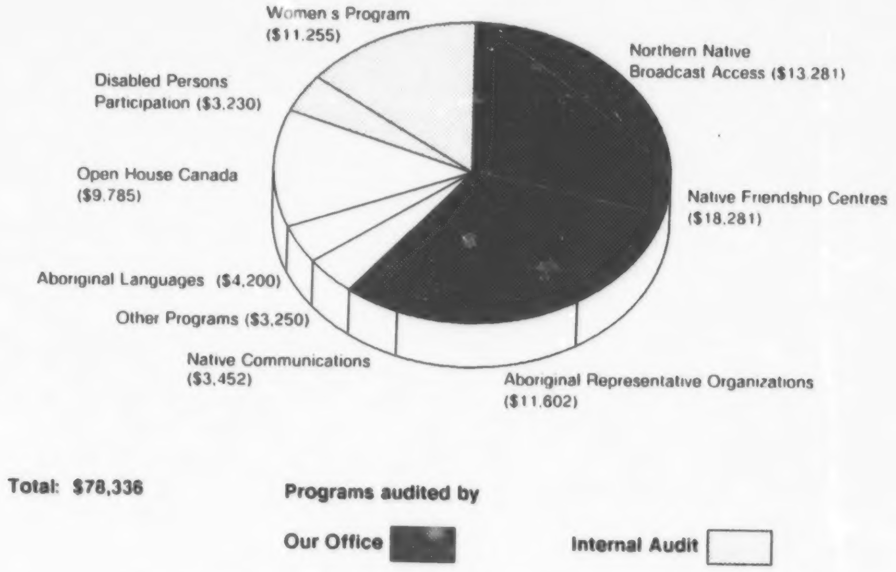
28.84 Our audit of Citizenship Development was done concurrently with work by the Department's Internal Audit Directorate. To

DEPARTMENT OF THE SECRETARY OF STATE

Exhibit 28.7

CITIZENSHIP DEVELOPMENT

1989/90 Grants and Contributions Budget
(thousands of dollars)



avoid duplication, we relied on certain tests conducted by the Directorate in auditing the Native Friendship Centres. As shown in Exhibit 28.7, six programs were audited, representing 78 percent of the grants and contributions awarded.

Few changes in funded groups

28.85 Most groups funded by the Native Citizens programs that were audited have been receiving grants or contributions from the Department of the Secretary of State for over ten years. To illustrate, in the four programs audited, only two groups out of 182 were new, and only two groups were no longer being funded.

28.86 According to terms and conditions approved by Treasury Board for programs relating to Friendship Centres and Representative Organizations, the maximum amounts awarded are determined by a formula based on size of the population served, geographical location and travel costs.

28.87 The amounts awarded to Friendship Centres and Representative Organizations were calculated over ten years ago, using this formula. Since then, increases or decreases have generally been distributed in the same proportion among the groups, without taking into account whether they continued to meet established criteria. That basic information has changed over the years, but the Department has not revised its funding calculations accordingly.

28.88 For instance, all the Aboriginal Representative Organizations (Indian and Inuit organizations) that were audited had seen their 1989/90 funding levels cut by 15 percent, the same percentage by which expenditure votes to the Department of the Secretary of State had been reduced. We found no documentation to show that the relative merits or needs of the organizations were a factor in determining the increases or cuts in funding.

28.89 Moreover, we were unable to calculate the differences between the amounts that each of these groups might otherwise have received under normal application of the program formula and what they actually did receive, since the data required for this analysis were not on file.

28.90 The Department should apply the formula referred to in the terms and conditions approved by Treasury Board when calculating the maximum amount for any recipient, or review the formula, to ensure a fair and equitable allocation of financial resources among all existing Native Friendship Centres and Aboriginal Representative Organizations.

Department's response: *Application of the formulae for both AROP and the Aboriginal Friendship Centres Program, must take into account the fact that overall funding levels have remained stable; hence identified needs cannot always be met. The Department is preparing for the renewal of the AROP mandate; concerns for equitable distribution will be further addressed in this process and revised terms and conditions will be changed as necessary.*

Lack of specific criteria for evaluating applications

28.91 One of the objectives of the Native Friendship Centres Program is to increase autonomy and economic self-sufficiency. The Department had not established criteria for evaluating applications on the basis of this objective.

28.92 In their application for funding, none of the Native Friendship Centres audited referred to a plan for increased autonomy and economic self-sufficiency. The self-generated income is minimal, as illustrated by an analysis of funding sources for the 15 centres audited out of the 99 funded which showed the following averages:

- Secretary of State	38%
- Other federal departments	10%
- Provincial, territorial and municipal governments	36%
- Donations, miscellaneous	11%
- Self-generated income	5%
	100%

28.93 Some audited groups had in fact recorded losses in self-financing activities, such as the sale of arts and crafts. The internal audit also observed that "the Department did not have financial policies or clearly established guidelines regarding the treatment of funding deficits or grant surpluses".

28.94 We also noted that a Friendship Centre which had not provided services for over seven months in 1988-89 continued to receive the full contribution of $116,573. The contribution agreement stipulated that under such circumstances the agreement would be terminated and excess funds reimbursed. However, this was not done. We have been informed by departmental officials that the Centre is back to its normal operation. We question the need for paying the full contribution while the Centre was not in operation.

28.95 The Department should develop specific criteria for evaluating applications and results against the objective of increased autonomy and economic self-sufficiency of Native Friendship Centres.

Department's response: *Friendship Centres use a special application form, designed in consultation with the Department's evaluation unit to assist the Department in evaluating the overall effectiveness of the Program including the self-sufficiency component.*

Approval process unnecessarily cumbersome

28.96 As paragraph 28.85 indicates, there are very few changes to the list of recipients receiving funding from one year to the next. For programs administered by the regional and district offices, we nevertheless counted a minimum of ten levels of review in the award process for all grants and contributions, regardless of size.

28.97 In the files we audited, we found no differences between the amounts originally recommended by the Citizenship Development officers and the amounts awarded after all of the reviews had been completed.

28.98 An internal audit also revealed that "there may be a need to simplify the grant application form and its guidelines, and that the review process for grant recommendations required revision to reduce excessive or inconsistent levels of review. This would improve the processing time for project grants, approaching 21 weeks in 1989/90. There is no published turnaround time standard".

28.99 In May 1989, the Finance Branch completed a study on the approval process for grants and contributions, which concluded that efficiency could be enhanced by delegating approval authority to managers at lower levels in the Department. As of 1 April 1990, this had not been done.

Grants and contributions applications, regardless of size, must go through 10 review levels before approval, a process that took close to 21 weeks in 1989/90.

28.100 We are unable to calculate the cost of these numerous reviews relative to the amounts awarded, since the Department does not keep the relevant data.

28.101 The Department should:

- **streamline the grants and contributions approval process to shorten the time required to process applications; and**
- **establish service standards for processing applications based on streamlined procedures, and monitor the extent to which it is meeting these standards.**

Department's response: *The Department fully supports the recommendations and will continue to strive towards these goals.*

Some Native Friendship Centres did not meet a program eligibility criterion

28.102 An objective of the Native Friendship Centres Program is to improve the lives of native people in urban areas, by supporting activities that promote equal access to and participation in Canadian society, while respecting the distinct qualities of native culture. One specific eligibility criterion of this program is that Native Friendship Centres be located in an urban area accessible to native clients. However, the Department has not defined the term "urban area".

28.103 According to the definition used by Statistics Canada, an urban area is "a continuously built-up area having a population concentration of 1,000 or more and a population density of 400 or more per square kilometre".

28.104 We noted that approximately 20 percent of existing Friendship Centres, which receive 19 percent of the funds allocated, are located in areas that do not meet this criterion. These centres have received $16 million over the past five years.

28.105 The Department should define the term "urban area" and ensure compliance with this definition when evaluating funding applications.

Department's response: *In the context of a study on the location of new Friendship Centres, the Department is reviewing the definition of urban area.*

Information for Parliament

Fragmented and Incomplete

28.106 Guidelines for presenting the information in Part III of the Estimates are issued by the Office of the Comptroller General. They stipulate that each department should identify expected and actual results, related expenditures, other performance information to justify the resources requested, and the general information needed to understand each program.

28.107 We examined the information provided to Parliament on Citizenship Registration and Development and concluded that it was fragmented and incomplete.

Parliament and the general public are unable to determine the total cost of administering the Citizenship Registration.

28.108 Since 1989/90, total estimated and actual costs of Citizenship Registration have been presented in a fragmented way. Those dealing with headquarters operations, including the Sydney registration centre, have been outlined in Part III for the Department of Multiculturalism and Citizenship (DMC); those dealing with regional operations have been presented in Part III for the Department of the Secretary of State. As of 1990/91 DMC does not distinguish those operating costs relating to Citizenship Registration from those of other program elements, namely Literacy, Voluntary Action and Human Rights. Consequently, Parliament and the general public are unable to determine the total cost of administering Citizenship Registration.

28.109 Also, performance information for both Citizenship Registration and Citizenship Development is incomplete. For example, no results were given on productivity, promptness and quality of Citizenship Registration services, nor was there any information on the size of the backlog. As indicated in Exhibit 28.5, this backlog has greatly increased since 1986/87. Regarding Citizenship Development, the processing time for applications, although reported in the 1984/85 Part III, is no longer provided.

28.110 Part III of the Estimates for the Department of the Secretary of State and the Department of Multiculturalism and Citizenship should separately reflect the costs of individual elements of Citizenship in a way that allows the total cost to be determined, and provide performance information in accordance with Treasury Board policy on the preparation of these documents.

Department's response: *We agree. We have provided this information in the past and intend to provide it in the future. As soon as Bill C-18 proposing the establishment of the new Department of Multiculturalism and Citizenship is adopted, the Department intends to address the recommendation.*

29

Department of the Secretary of State

Education Support

Department of the Secretary of State

Education Support

Main Points

29.1 There are no clear objectives for support to post-secondary education (paragraphs 29.21 to 29.27).

29.2 The Department is not adequately discharging its mandate for federal co-ordination of support to post-secondary education (29.29 to 29.31).

29.3 Information to Parliament on post-secondary education is incomplete (29.39 to 29.44).

29.4 There appears to be a lack of a sense of urgency to correct deficiencies in the Canada Student Loans Program. Although management has taken some corrective measures, significant deficiencies which were previously identified in the management of the Program remain unresolved (29.51 to 29.59). The Program is therefore not managed with due regard to economy and efficiency and in compliance with the Act, as the following examples illustrate:

- The Department has devoted seven years and invested $5 million in the redesign of a computer system that is not operational (29.52).

- Between 1984/85 and 1988/89, authorized loan allocations were exceeded by an estimated $264 million (29.64 to 29.67).

- Each year, approximately $15 million in loans is disbursed to students who have dropped out of school. Failure to recover these amounts at the time of withdrawal results in extra costs to the Program, estimated at $10 million annually (29.86 to 29.91).

- One out of six students defaults on his or her loan. Since the Program began in 1964, the federal government has reimbursed lending institutions $858 million in claims for defaults on payment; only $297 million has been recovered from students -- a recovery rate of 35 percent. Loans receivable amounted to 24 percent of the non-tax revenue receivable by the Government of Canada as of 31 March 1989 (29.92 to 29.107).

29.5 Information to Parliament on the Canada Student Loans Program is incomplete and inaccurate (29.113 to 29.118).

Table of Contents

	Paragraph
Overview	29.6
Audit Scope	29.11
Post-secondary Education Support	
Background	29.15
Lack of clearly defined objectives (29.18)	
Co-ordination and Consultation	29.28
Insufficient co-ordination at the federal level (29.29)	
Significant improvements in consultations with provinces (29.32)	
Information to Parliament	29.37
Information to Parliament is incomplete (29.39)	
The Canada Student Loans Program	
Program Overview	29.45
Program Management - Limited Progress	29.51
Insufficient control of activities administered by participating provinces and territories (29.60)	
Improvements needed in the management of accounts receivable (29.92)	
High default rate (29.96)	
Low recovering rate (29.101)	
Lack of tools for sound program management (29.108)	
Incomplete and Inaccurate Information to Parliament	29.113
Canadian Studies	29.119
Follow-up of corrective measures	29.121

Exhibits

29.1	Organization of the Department of the Secretary of State
29.2	Department of the Secretary of State, Education Support - Overview of Expenditures
29.3	Significant Milestones in Federal Support to Post-secondary Education in Canada
29.4	Federal Support to Post-secondary Education in Canada
29.5	Excerpt from the Federal-Provincial Fiscal Arrangements and Federal Post-secondary Education and Health Contributions Act
29.6	Canada Student Loans Program (CSLP) - Distribution of Costs by Loan Year
29.7	CSLP - Value of Guaranteed Loans and Program Costs
29.8	Non-tax Revenue Receivable by the Government of Canada as at 31 March 1989
29.9	CSLP - Claims for Default of Payment and Recoveries
29.10	CSLP - Write-offs

Department of the Secretary of State

Education Support

Overview

29.6 The mission of the Department of the Secretary of State is to strengthen the community spirit of Canadians, help them better define and celebrate their identity and promote their participation in the educational, social, political, and multicultural aspects of Canadian society.

29.7 In the 1986 Speech from the Throne, the federal government reasserted its commitment to supporting, with the provinces, a system of post-secondary education based on excellence and equality of opportunity.

29.8 In addition to its mandate to develop and co-ordinate policies and programs at the federal level related to education, the Department of the Secretary of State is expected to take the lead in federal-provincial consultations on behalf of the federal government, and to support the development and dissemination of Canadian studies learning material. Moreover, in consultation with the Department of External Affairs and the Council of Ministers of Education, Canada (CMEC) it contributes to the effective international representation of Canadian interests in the field of education.

29.9 The Department's activities, as shown in Exhibit 29.1, are conducted within a framework of six sectors. Also shown in the exhibit are the main underlying activities of the Education Support Sector.

29.10 This sector provides three principal types of financial assistance, as illustrated in Exhibit 29.2. Expenditures for fiscal year 1988/89 and those forecast for 1989/90 account for approximately 91 percent of the Department's total annual expenditures. The major part of these are non-discretionary transfer payments to provinces.

Audit Scope

29.11 We audited the Education Support programs and systems except for the Official Languages in Education Program, which will be the subject of a separate audit in the future, and Canadian studies. Our work on the latter was limited to a follow-up of corrective measures taken after an internal audit review.

29.12 Using tests, analyses and interviews with various departmental employees at all levels, we attempted to determine whether the Department of the Secretary of State was managing these programs with due regard to economy and efficiency, and had procedures in place to measure effectiveness.

29.13 We met with representatives of various federal departments and agencies, and visited student aid offices in three provinces. We also met with representatives of the Council of Ministers of Education, Canada and the Association of Universities and Colleges of Canada.

29.14 We reviewed the results of some work by the Department's Internal Audit and Program Evaluation Directorate, and also familiarized ourselves with reports on several studies in this field.

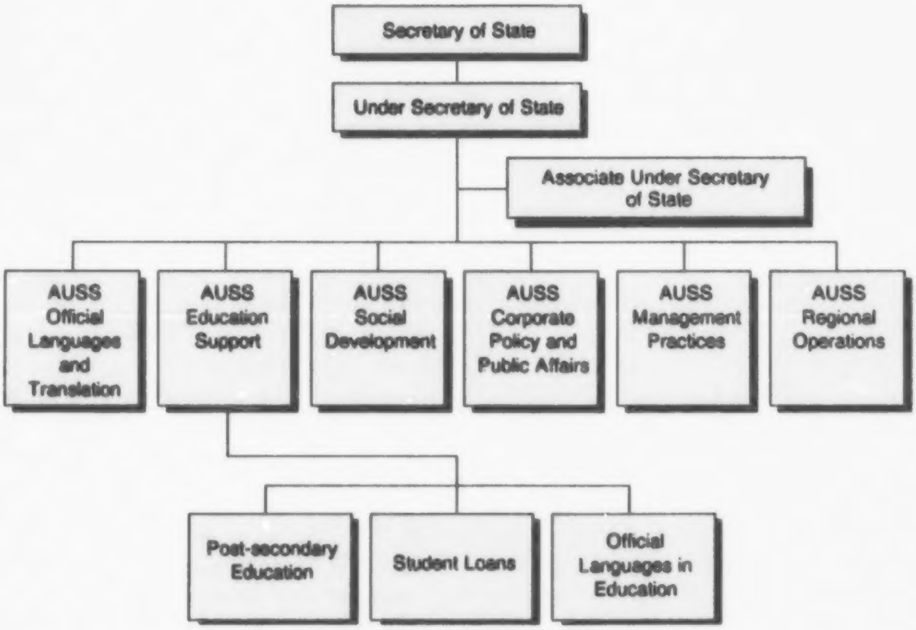
Post-secondary Education Support

Background

29.15 The Constitution of Canada gives the provinces jurisdiction over education. However, the Education Support programs of the Department of the Secretary of State, and of other government departments and agencies, demonstrate the federal government's

Exhibit 29.1

ORGANIZATION OF THE DEPARTMENT OF THE SECRETARY OF STATE
AS OF 31 MARCH 1990


Secretary of State
Under Secretary of State
Associate Under Secretary of State
AUSS Official Languages and Translation
AUSS Education Support
AUSS Social Development
AUSS Corporate Policy and Public Affairs
AUSS Management Practices
AUSS Regional Operations
Post-secondary Education
Student Loans
Official Languages in Education

AUSS: Assistant Under Secretary of State

continuing commitment to education as an important means of achieving Canada's social and economic goals.

Federal support for post-secondary education amounted to $6.8 billion in 1988/89.

29.16 Over the years there has been a significant evolution in the terms and conditions of federal support to post-secondary education, as Exhibit 29.3 shows. The federal government's sizeable financial contribution, which escalated from $632 million in 1967/68 to $6.8 billion in 1988/89, is illustrated in Exhibit 29.4. This represents an increase of 975 percent.

29.17 The Department of the Secretary of State currently provides support for post-secondary education indirectly through provinces and territories, under the Established Programs Financing (EPF), pursuant to the Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act. A portion of the Official Languages in Education Program also constitutes indirect federal support for post-secondary education, through transfers to provinces. In addition, individuals and institutions receive direct funding through student assistance programs, such as loans and scholarships; research funding in various disciplines; and other expenditures, such as

Exhibit 29.2

DEPARTMENT OF THE SECRETARY OF STATE
EDUCATION SUPPORT
OVERVIEW OF EXPENDITURES
(thousands of dollars)

Activities	1989/90 (forecast)	1988/89 (actual)
Post-secondary Education (1)	$2,170,000	$2,227,453
Canada Student Loans Program (2)	411,000	387,234
Official Languages in Education Program (3)	87,000	84,247
	$2,668,000	$2,698,934

(1) Cash payments to the provinces and territories pursuant to the Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act.

(2) Financial assistance for students pursuant to the Canada Student Loans Act

(3) Expenditures related to post-secondary education only.

NB: Does not include funding for Canadian Studies, which is approximately $1.5 million per year

SOURCES: Part III of the Estimates for the Department of the Secretary of State, 1990'91 and the Official Languages in Education Branch of the Secretary of State.

those related to direct federal responsibilities -- military colleges, for instance.

Lack of clearly defined objectives

29.18 Role and mandate of the Department. In 1966, the Department of the Secretary of State was assigned central responsibility to co-ordinate the development, implementation and review of federal policies and programs for education. It was also designated to speak for the federal government on federal-provincial issues related to education. This mandate was reinforced in 1973 by a Cabinet directive, in 1977 by section 20(3) and in 1984 by section 21(1) of the Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act, shown in Exhibit 29.5.

29.19 Previous audit. The Education Support Sector of the Department had been the subject of an audit by our Office in 1984. We had examined whether policies and programs were aimed at achieving precise objectives, whether there were effective and continuing mechanisms to co-ordinate federal activities and provide for consultation with the provinces, whether the Department could evaluate the extent to which program objectives were being achieved, and whether funds were being spent as intended.

29.20 We had recommended that the Department needed to establish mechanisms to strengthen its role as co-ordinator of all federal participants, and consult with provincial governments on the means of achieving federal education support objectives. We had also

Exhibit 29.3

SIGNIFICANT MILESTONES IN FEDERAL SUPPORT TO POST-SECONDARY EDUCATION IN CANADA

• **1951 to 1967**	Direct funding to universities by the federal government on a per capita basis. Canada Student Loans Program established in 1964.
• **1967 to 1977**	Federal contribution to post-secondary education paid directly to the provinces on a cost-sharing basis, in the form of adjustment payments and a transfer of taxing power.
• **1977**	Pursuant to Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act, cost-sharing principle changed to transfer payments to each province. Transfers for post-secondary education are unconditional, escalated according to population and to gross national product.
• **1984**	The 1977 legislation on federal-provincial fiscal arrangements was amended to require the separation of the post-secondary education component from the health component and the Department was required to report to Parliament on federal and provincial aid to post-secondary education.

reported that the Department lacked a means to measure achievements against program objectives. Moreover, there was no requirement for provinces to account for funds allocated to them pursuant to the Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act.

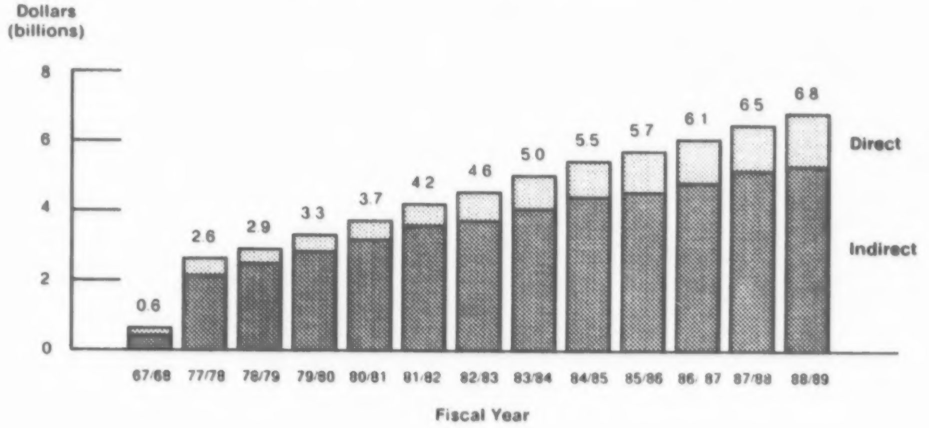
29.21 **Current situation**. During our audit, we found it strikingly apparent that post-secondary education in Canada is going through a very trying period. The challenges faced by the post-secondary systems have been and continue to be the focus of national attention and considerable debate. The Department noted, in its 1988/89 Annual Report to Parliament on federal and provincial support to post-secondary education, an urgent need to support the kind of education that will train people to help Canada face international economic competition.

29.22 We should point out that, at the Federal-Provincial First Ministers' Conference of November 1989, the Prime Minister proposed the establishment of a national task force on human resource development for the year 2000. In order to achieve this objective, it was agreed by the provincial premiers to go forward with this initiative. The CMEC was requested to develop, with a representative of the Prime Minister, terms of reference for and to make recommendations on the procedures for the establishment of the task force.

29.23 Several documents and studies by the Department and by other organizations, such as the Senate Standing Committee on National Finance, confirm the absence of an overall federal strategy and approach to post-

Exhibit 29.4

**FEDERAL SUPPORT (1)
TO POST-SECONDARY EDUCATION IN CANADA**



(1) Support includes Federal Government expenditure and federal Tax Revenues forgone under Established Programs Financing in relation to Post-secondary Education

Sources: Statistics Canada (1967/68 to 1982/83) and the Annual Report to Parliament on Federal and Provincial Support to Post-secondary Education in Canada (1983/84 to 1988/89)

secondary education, and of a clear definition of the federal government's related role.

29.24 The Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act is essentially a fiscal policy instrument controlled by the Department of Finance. It provides for funds in respect of post-secondary education to be paid by the Secretary of State to the provinces, and allows them to allocate those funds in accordance with their own priorities.

Federal strategy and national objectives for post-secondary education are needed.

29.25 We recognize that the Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act does not explicitly require that national purposes or objectives for post-secondary education be established and defined. However, the legislation does require the Department to report on "the results of any consultations by or on behalf of the Secretary of State with the Council of Ministers of Education, Canada relating to the definition of national purposes to be served by post-secondary education and the means by which the government of Canada and the provinces will achieve those purposes" (sec. 21(1) e). In our view, the ability to report as thus required rests on first establishing and defining the national purposes to be served by post-secondary education. We note that in the early 1980s the Department, in co-operation with other federal departments, developed federal

Exhibit 29.5

EXCERPT FROM THE FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS AND FEDERAL POST-SECONDARY EDUCATION AND HEALTH CONTRIBUTIONS ACT

20 (3) The Secretary of State shall, as an essential and continuing indication of the interest of the Government of Canada expressed by the funding arrangements in respect of the post-secondary education financing program provided under this Part, consult with the governments of the provinces with regard to the relationship between the programs and activities of the governments of Canada and of the governments of the provinces that relate to post-secondary education.

21 (1) The Secretary of State shall cause to be laid before each House of Parliament, not later than the fifth sitting day of that House following the end of each fiscal year, a report for the previous fiscal year on:

a) cash contributions and total equalized tax transfers in respect of the post-secondary education financing program applicable to each province;

b) expenditures by each province on post-secondary education;

c) any other federal programs of support or involvement in post-secondary education;

d) the relationship between such federal contributions, transfers and programs and Canada's educational and economic goals; and

e) the results of any consultations by or on behalf of the Secretary of State with the Council of Ministers of Education, Canada relating to the definition of national purposes to be served by post-secondary education and the means by which the governments of Canada and the provinces will achieve those purposes.

objectives for post-secondary education. However, those objectives were never adopted.

29.26 Given its mandate to develop policy, in our opinion the Department has not yet been able to implement a framework to promote and encourage the clear definition and establishment of national objectives and related policies in support of a post-secondary education system based on excellence and equality of opportunity. Consequently, there is no appropriate framework for identifying and addressing in a concerted manner the important issues related to post-secondary education, such as the federal government's role in post-secondary education.

29.27 Given the federal government's continuing commitment to support education as a means of attaining its socio-economic goals, and the broad study proposed at the November 1989 First Ministers' Conference, the Department, in co-operation with the CMEC and various other participants, should establish an overall strategy and approach which includes the development and adoption of national objectives and federal policies relating to post-secondary education.

Management's response: *It is the Department's view that the 1986 Speech from the Throne explicitly identified government's broad objectives when it spoke of reaffirming* *the commitment to "supporting, with the provinces, a system of post-secondary education based on excellence and equality of opportunity".*

To this end the Department has developed new partnerships which have supported a broad array of initiatives, including new funding arrangements for the Research Granting Councils, new policies on international students, the Networks of Centres of Excellence, the Canada Scholarships, a new protocol for the Official Languages in Education, Improvements to the Canada Student Loans Program, and a National Literacy Program, among others. A key example, the National Forum on Post-Secondary Education, demonstrated federal leadership and co-operation, and its significance has been noted by the Auditor General. The priorities and policies recommended by the National Forum are being pursued and implemented by governments.

Of even greater potential importance is the planned national study of human resource development in Canada. On the recommendation of the Secretary of State, following discussions with various federal departments and agencies, a proposal was made by the Prime Minister to provincial Premiers for a national review of all levels of education and training. At the time of the audit, this was being planned in close co-operation with the Council of Ministers of Education, Canada (CMEC). This initiative represents the key component of an overall strategy and approach to understanding the contribution of education to Canada's future socio-economic needs.

Co-ordination and Consultation

29.28 Considering the importance of education to achieving national socio-economic objectives, as well as the government's significant commitment to funding post-secondary education, co-ordination within the federal administration and consultation with the provinces and other participants are essential. Moreover, consultations with the provinces are required, pursuant to the Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act. The CMEC and the provinces agree with the importance of federal-provincial consultations, as expressed by their document Principles of Interaction released in 1985.

Insufficient co-ordination at the federal level

29.29 Several departments and agencies have programs with objectives related to post-secondary education. Co-ordination at the federal level requires an appropriate framework, and mechanism for ensuring that programs are not duplicated; that provincial objectives are respected; that federal programs are consistent with national objectives; and that strategies for dealing with important national issues are identified and developed.

29.30 There have been consultations between the Department and other federal organizations on specific issues related to post-secondary education; for example, the establishment of the Canada Scholarship Program and increased funding for Research Councils. Although the Department is of the opinion that the current mechanism in place is within its co-ordination role, we believe that the mechanism is not sufficiently comprehensive; nor does it entail an overall federal strategy to deal with the issues. Furthermore, in our opinion it does not adequately meet the requirements of Cabinet directives which call for a more direct and active approach to federal co-ordination on the part of the Department.

29.31 As a consequence, the Department's approach has been characterized more by "reaction" than by leadership, and there is no common federal approach to, for instance, the relationship between education, training and the labour force. Moreover, the Department has not established the mechanisms that would enable it to report on the relationship between "federal contributions, transfers and programs and Canada's educational and economic goals", as required by section 21(1) d) of the Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act.

Significant improvements in consultations with provinces

29.32 We have noted several federal-provincial initiatives since our last audit. One of the most significant was the National Forum on Post-Secondary Education held in October 1987, sponsored jointly by the Department and the CMEC, which identified some sectors of priority in post-secondary education. This Forum established a climate favourable to the exchange of information with provinces, as well as a commitment to increased co-operation by both levels of government.

29.33 The National Forum resulted in specific initiatives at the federal and provincial levels, in which the Department has participated. Moreover, discussions between the Department and the CMEC demonstrated good faith at both levels of government toward closer co-operation. However, no specific steps have been taken to establish a framework for federal-provincial discussions aimed at developing national objectives for post-secondary education.

A joint federal/provincial conference identified priority areas for post-secondary education.

29.34 We acknowledge that it is difficult for the Department of the Secretary of State to initiate consultations with the CMEC on national objectives, since education is under provincial jurisdiction and transfer payments to provinces for post-secondary education are unconditional. Nevertheless, considering the challenges facing post-secondary education, there is a clear need for the joint establishment of educational and economic goals in order to enable Canada to adequately develop its human resources for the future.

29.35 Direct consultations with provinces have been limited to specific issues where the Department has well-defined responsibilities, such as student assistance and Canadian studies. Moreover, we have observed that where federal programs are related to provincial education systems, provinces have communicated directly with the various federal departments and agencies concerned.

29.36 To comply with Cabinet directives, the Department should establish an overall framework and mechanism for discharging its mandate to co-ordinate at the federal level.

***Management's response**: The Department is of the view that existing co-ordination and consultation mechanisms comply with government policy and are appropriate to current needs. These arrangements must be flexible and pragmatic, responding to particular needs, and ensuring that program activities and policies are coherent over time.*

To this end the Department has: assisted other departments to acquit their own education-related responsibilities; identified sensitivities, requirements and opportunities for government involvement in education matters; disseminated information on education through the legislatively required Report to Parliament and by other means; taken the lead with other departments and central agencies on education matters requiring co-ordinated federal action; and co-operated with other federal departments and agencies to ensure effective federal-provincial consultation in all areas related to education. The Department will continue to discharge its mandate in this area, using existing means or developing new ones as the government deems appropriate.

Information to Parliament

29.37 Pursuant to the Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act, each year the Department of the Secretary of State submits a report to Parliament entitled "Federal And Provincial Support to Post-secondary Education in Canada".

29.38 The objective of the report is to inform Parliament about financial assistance provided

The National Forum on Post-secondary Education held in Saskatoon, October 1987 (see paragraph 29.32).

by the federal and provincial governments for post-secondary education. Exhibit 29.5 sets out the legislative requirements of this report; the Department of the Secretary of State aims, in addition, at producing a document both educational and useful to those interested in post-secondary education.

Information to Parliament is incomplete

29.39 Information provided in the report to Parliament is submitted in accordance with section 21(1) a), b) and c) of the Act. Statistical information is provided by Statistics Canada and corroborated by provinces and federal departments through a well-defined process.

29.40 However, as we noted in paragraph 29.26, Canada's objectives for post-secondary education are not clearly defined. The report to Parliament is therefore not in compliance with section 21(1) d) of the Act since it makes no mention of the relationship between funding and the objectives related to the economy and to post-secondary education. Furthermore, the report does not mention any specific consultations with the CMEC on setting national objectives. In fact, no such consultations on setting national objectives have taken place.

29.41 The Department should report to Parliament in accordance with section 21(1) d), or outline the difficulties encountered in doing so.

***Management's response**: Section 21(1) d) of the Act refers to reporting of "the relationship between...federal contributions, transfers and programs and Canada's educational and economic goals". This issue has been discussed in previous Reports to Parliament. As the recommendation suggests, however, there are significant difficulties in defining those goals, in finding suitable indicators of the extent to which post-secondary education contributes to their achievement, and in linking overall federal support to the activities of the provincial post-secondary education systems. The Department is consulting with provincial governments, through the CMEC, to explore possible ways to address these issues and will include any results in future Reports to Parliament.*

29.42 Our review of the Department's report to Parliament indicates that it consists mainly of statements on points of interest; financial data; a description of the various provincial education systems and their objectives; reports of consultations between the Department of the Secretary of State or other federal agencies, and the CMEC and various organizations; and initiatives that have been, or will be, carried out.

29.43 However, the report does not include information on whether or not post-secondary education is meeting Canada's educational and economic goals. At present, it is difficult to compare Canadian performance against that of other industrialized countries. Although the legislation does not require such comparisons, we believe that including such qualitative information could only enhance the quality of the report to Parliament.

29.44 The Department of the Secretary of State should include, in its report to Parliament, information on the extent to which post-secondary education is, or is not, responding to the changing economic needs of Canada.

Management's response: *This recommendation goes beyond the requirements of the Act with respect to the Report to Parliament and raises complex and important national issues that are the subject of major research efforts and extensive study by many partners in post-secondary education. Questions about the contributions of education and training to Canada's economic performance will be addressed in depth by the proposed national study of human resource development and by a major study begun in 1990 by the Economic Council of Canada, as well as by numerous other studies and reports regarding education and the economy by provincial and non-governmental agencies. These studies, when complete, may be the focus of Parliamentary attention. The Department notes that the results of previous studies of higher education have been reported briefly in earlier Reports to Parliament. Where relevant, the results of new studies will be included in future Reports.*

The Canada Student Loans Program

Program Overview

29.45 Established in 1964 pursuant to the Canada Student Loans Act, this Program is the most important federal program of direct assistance to students. It provides financial aid to those who need it to continue their education at the post-secondary level.

The Canada Student Loans Program is the most important federal program of direct assistance to students. As of 31 July 1989, the Department of the Secretary of State was the guarantor of $2.5 billion in loans.

29.46 Under this Program, managed since 1977 by the Student Assistance Directorate of the Department of the Secretary of State, the federal government guarantees loans made by chartered banks and other designated lenders to students who have been issued a Certificate of Eligibility by a participating province or territory. As of 31 July 1989 the Department was the guarantor of $2.5 billion in loans

29.47 In 1988/89, 203,000 full-time students received loans guaranteed through the Program, amounting to a total of $551 million. Canada student loans are given to approximately one-third of full-time students registered in universities and community colleges throughout Canada except for Quebec and the Northwest Territories, which have opted for alternative payments and manage their own programs.

29.48 The interest on these loans is paid by the federal government so long as the student continues to attend school, and for six months after the completion of studies. The Program also provides for an additional eighteen-month interest-free period, should the borrower be unemployed or unable to work because of illness or incapacity.

29.49 Exhibit 29.6 shows the distribution of costs related to Program administration for 1983/84 and 1988/89. They have increased considerably during the last five years.

particularly in relation to the value of guaranteed loans (see Exhibit 29.7).

29.50 **Audit Scope.** Our audit focussed on compliance with legislative and administrative requirements dealing with approved ceilings for loans, and on the criteria used to evaluate the financial needs of full-time students. We also reviewed the management of accounts receivable, information to Parliament, and whether program evaluations had been conducted.

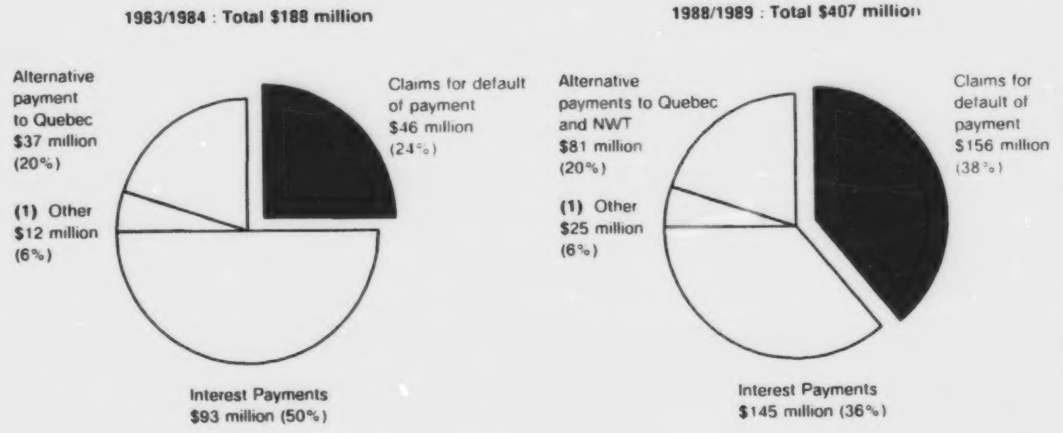
Program Management - Limited Progress

29.51 Our previous audits of the Canada Student Loans Program (1977, 1981, and 1984; follow-up audits in 1986 and 1988) focussed mainly on the internal controls of the computer system used for the Program's administration and on the management of a project to develop a new system. These audits identified serious deficiencies, both in internal financial controls and in the management of the aforementioned project.

29.52 As stated in our 1988 follow-up report (paragraphs 20.8 and 20.9), the Department of the Secretary of State stopped work on development of the new computer system in 1987, after an investment of seven years and more than $5 million. The decision was based on the developing system's lack of reliability and its operational inefficiency, and on the estimate of an additional $1.5 million needed to complete it, with no guarantee of success. Consequently, the Department of the Secretary of State is obliged to use a system that

Exhibit 29.6

CANADA STUDENT LOANS PROGRAM (CSLP)
DISTRIBUTION OF COSTS BY LOAN YEAR
(1 August to 31 July)

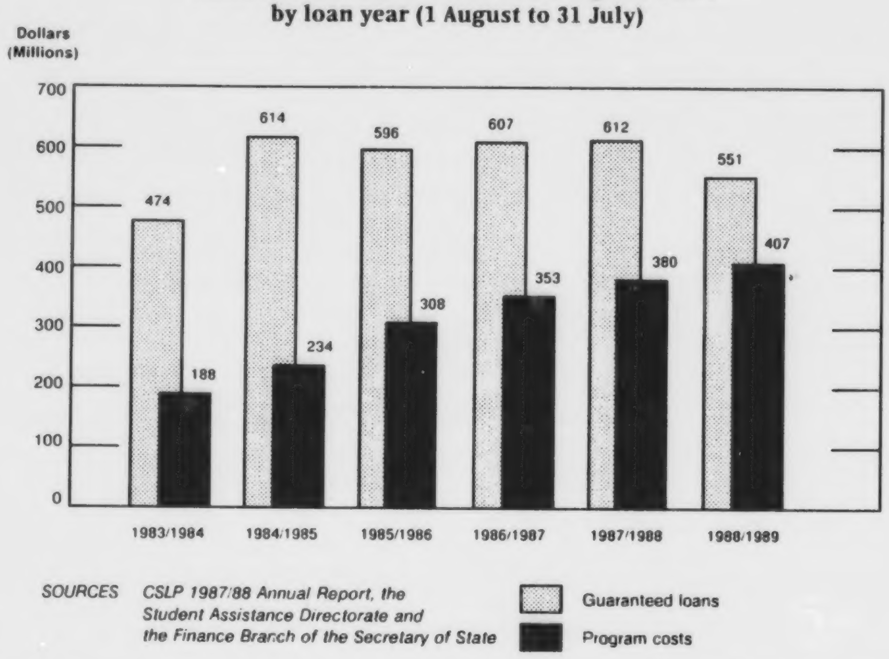


SOURCES: CSLP 1987/88 Annual Report, the Student Assistance Directorate and the Finance Branch of the Secretary of State

(1)	1983/1984	1988/1989
Collection costs	6	16
Provincial service fees	3	4
Operating costs	2	3
Claims for death and permanent disability	1	2
	$ 12 *Million*	$ 25 *Million*

Exhibit 29.7

CANADA STUDENT LOANS PROGRAM (CSLP)
Value of Guaranteed Loans and Program Costs
by loan year (1 August to 31 July)



SOURCES *CSLP 1987/88 Annual Report, the Student Assistance Directorate and the Finance Branch of the Secretary of State*

essentially dates back to 1968, and no longer meets the needs of users.

29.53 Since 1982, the Student Assistance Directorate has also been the subject of several internal and external studies. These studies revealed significant weaknesses with respect to a lack of monitoring of activities administered by the provinces, a high number of defaults, a lack of success in recovering loans, a lack of control over collection agencies, and a lack of proper management information.

29.54 Although certain initiatives have been taken by the Student Assistance Directorate to address these weaknesses, none of them had been substantially resolved when we completed our audit in March 1990.

29.55 In 1988, we also pointed out (paragraphs 20.10 to 20.15) that the Department of the Secretary of State had changed the organization and the management team of the Program, and that staff more experienced in financial management would join the team.

29.56 Since then, we have observed that two key management positions in the Directorate, namely those of the Comptroller and the Manager of Accounts Receivable, have each had three incumbents. We have also noted short tenure or delays in staffing other management positions.

29.57 Moreover, management had identified a need for additional resources to meet current and future program demands. We have been informed by the Directorate that no formal requests have been made to Treasury Board to obtain additional resources. As of 31 October 1989, 32 of the 88 person-years authorized for the Directorate were staffed on an interim basis.

29.58 In addition, in December 1989, Treasury Board decided to turn over part of the Program's management to the private sector in order to increase its efficiency. Although we were informed that the Department had examined other options, we were not provided with any documentation to show that an appropriate cost/benefit analysis had been carried out in support of this decision.

Significant deficiencies remain unresolved; it will require a continuing commitment by the Department's senior management and continuity of personnel administering the Program to resolve them.

29.59 Although management has taken a number of measures to strengthen the operation of the Program, significant deficiencies remain unresolved. In our opinion, it will require a continuing commitment by senior management and continuity of personnel administering the Program to resolve them.

Insufficient control of activities administered by participating provinces and territories

29.60 Provinces and territories, except for Quebec and the Northwest Territories, provide assistance to students by combining the Canada Student Loans Program with their own programs of loans, grants and scholarships. The Department of the Secretary of State makes service fee payments to provincial administrations which, in turn, assess student applications and approve federal loans.

29.61 Pursuant to the Canada Student Loans Act, there is an official agreement on the administration of this Program that defines the criteria to be used by provinces in assessing loan applications.

29.62 The Department has had no assurance that program activities have been managed in accordance with the Act and the agreement since 1985/86 -- the last year in which the agreement was updated and the Student Assistance Directorate carried out an on-site review of provincial student aid offices.

29.63 We visited three provinces to evaluate the consequences of this lack of monitoring. Although these provinces had adhered to most of the terms and conditions of the agreement, we found significant deficiencies in the administration of the Program.

29.64 **Approved ceilings are exceeded.** The Canada Student Loans Act establishes an annual monetary ceiling for the loans that provinces may authorize and for which the federal government may eventually become guarantor. The ceiling, as well as the provincial allocations, are to be determined by the Department of the Secretary of State.

Due to a lack of monitoring by the Department of the Secretary of State, provinces have exceeded their loan allocations by an estimated $264 million.

29.65 In the event that the loans authorized by a province exceed the amounts allocated to the province by the Department, two remedial options are available under the Canada Student Loans Act and Regulations. The first is for the Department to reduce the following year's allocation by the excess amount. The second alternative requires that the Department enter into an arrangement with the provincial government to increase its allocation for the following year by the excess amount, if the province complies with the terms and conditions of the arrangement.

29.66 Our audit revealed that due to a lack of monitoring by the Department, neither option had been exercised. Based on figures provided by the Department, participating provinces exceeded their loan allocations between 1984/85 and 1988/89, by an estimated $264 million.

29.67 The Department of the Secretary of State should establish appropriate controls to ensure compliance with provisions in the Canada Student Loans Act and Regulations governing authorized ceilings for loan amounts.

***Management's response**: In consultation with provincial governments, the Department will bring forward proposals for more equitable, practical, and enforceable provisions than provided by the current legislation. From 1984/85 to 1988/89, the total statutory allocation was some $3.1 billion. While provinces technically "authorized" a greater amount in student loans, it must be noted that the amount actually guaranteed by the federal government was $141 million less than the total allocations permitted by the legislation.*

29.68 Lack of co-ordination and control over the designation of post-secondary education institutions. The Canada Student Loans Act and the agreement between the federal and provincial governments stipulate that a participating province may authorize a loan to a student attending a designated post-secondary educational institution. They also stipulate that it is up to provinces to designate eligible institutions.

29.69 Since neither the enabling legislation nor the agreement specifies what constitutes a post-secondary education institution, several hundred private institutions in the trades and vocational training categories are designated as eligible post-secondary institutions. It should be noted, however, that in the Report to Parliament on Federal and Provincial Support to Post-secondary Education in Canada, these are not recognized by Statistics Canada in its definition of post-secondary programs.

29.70 Since 1986/87, average figures from the Department of the Secretary of State indicate that students attending private institutions account for 24 percent of defaulted payments, although they are granted only 9 percent of loans.

29.71 The Department of the Secretary of State should specify what the Canada Student Loans Program considers to be post-secondary education institutions, and should ensure that the eligibility criteria to be used in designating these institutions are clearly defined.

***Management's response**: We agree. The Department and provincial student aid authorities have been aware for some time that many of the types of institutions now designated by provincial governments may not fall within the meaning of "post-secondary" as it was traditionally understood when the Program was established in 1964. This is among the issues now being addressed by the Intergovernmental Consultative Committee on Student Financial Assistance set up in 1987. The development of clear definitions of post-secondary institutions and the eligibility criteria to be used in designating them for the purposes of Canada Student Loans is currently being pursued within the Committee and through discussions with educational institutions.*

29.72 Loans in excess of need to students who have made erroneous declarations of their resources. Student's educational fees and living expenses are to be shared by the student, his or her parents, and taxpayers. The taxpayers' share is paid through provincial grants and provincial and federal loans.

29.73 The size of a loan depends on a student's educational fees, living expenses and financial resources for the coming year. Financial resources of the student are considered to include those of spouse and parents where applicable.

29.74 Since these amounts are subject to verification, the student, spouse and parents must sign a declaration authorizing access by provincial authorities to the files of the Department of National Revenue, Taxation.

One of the three provinces we visited also requires that the student sign a declaration authorizing access to any other information in federal or provincial departments.

29.75 On matters relating to provincial grants and loans, we found that two of these three provinces verify the student's financial resources by comparing them to data from other government sources. Although somewhat limited, this procedure has succeeded in tracing excess payments of close to $10 million for 1987/88 and 1988/89. Based on results to date, a good portion has already been recovered by the provinces.

29.76 Neither the Canada Student Loans Act nor the federal-provincial agreement requires that provinces identify and recover excess Canada student loans, as they do with provincial grants and loans.

29.77 Although we have not been able to assess what impact such a verification requirement would have on loans under the Canada Student Loans Program, in our opinion significant savings could be achieved given that the value of federal loans is about twice that of provincial grants and loans. The savings would be realized from the immediate recovery of excess loans and from reduced interest paid to lenders by the federal government during the applicable period.

29.78 The Department of the Secretary of State should:

- **seek revision of the Canada Student Loans Act with respect to the recovery of loans in excess of need; and**
- **review the agreement with the provinces to ensure that provincial verification procedures include the use of information on student means from other government sources, in the early identification and recovery of federal loans in excess of needs.**

***Management's response:** The need to seek revision of the legislation to address the recovery of excess loans was identified by the Department in late 1988, when legal advice indicated that, under the existing legislation, student borrowers cannot be required to return to banks the portions of their negotiated loans that are not used or not needed. The Department, in consultation with provinces, is developing proposals to resolve this issue.*

We also agree that, subject to the practices and restrictions concerning the protection of privacy in each province, provincial verification procedures should include the use of other government information sources. The Department is pursuing appropriate changes in the current administrative arrangements with provincial governments.

29.79 Irregularities in obtaining loans. Once a province has issued a Certificate of Eligibility authorizing a student to obtain a loan, the designated institution certifies that the student is enrolled and gives the certificate to the student, who negotiates the loan with a bank.

29.80 The Certificate of Eligibility issued by one of the three provinces we visited is sent directly to the student instead of to the educational institution, thereby increasing the risk that a loan may be obtained as a result of misinformation. This procedure is also used by one of the other two provinces, for students attending private institutions.

29.81 Indeed, our random examination of 55 student files that provincial authorities had referred to police for investigation of fraud found that 20 percent of these students had negotiated loans by falsifying their enrolment registration on the Certificate of Eligibility.

29.82 Lack of clarity with respect to provincial responsibility for auditing loan applications. The agreement stipulates that the provinces and the territory participating in the management of the Program are to audit at least five percent of the loan applications they process, to ensure that they meet the agreement criteria. We consider this to be an important responsibility, but the agreement does not specify the audit approach and procedures to be followed.

29.83 We noted that the Department of the Secretary of State does not follow up on whether this requirement is met. In fact, one of the provinces had no audit capability at the time of our visit, while another performed no random audits of loan applications processed, instead investigating only those referred by educational institutions.

29.84 Furthermore, audits conducted did not ensure that students receiving federal loans had attained a satisfactory scholastic standard, as stipulated in the Act and in the federal/provincial agreement, because neither clearly defines a satisfactory scholastic standard.

29.85 The Department of the Secretary of State should:

- **ensure that a satisfactory scholastic standard is clearly defined; and**
- **develop and implement an audit plan promoting closer and more frequent review by the Student Assistance Directorate of provincially administered activities related to the Canada Student Loans Program.**

***Management's response**: Among the priorities identified in the course of the Department's review of student aid policy is the need to establish clear links between student aid and academic progress. One of the regulatory amendments of July 1989, which established controls on total borrowing tied to the borrower's level of study, was a first step in that direction. A further refinement would be to ensure that the need for students to maintain a "satisfactory scholastic standard", as a condition of eligibility, is more clearly defined and enforced, and the Department is working with provincial authorities to address this issue.*

The Department recognizes that the accountabilities in current administrative arrangements with provincial governments must be improved. It has, since early 1989, been pursuing a new agreement that will, among other things, specify audit plans for closer and more frequent monitoring of provincially administered activities. At the time of this audit the agreement was still under discussion.

29.86 Excess loans to full-time students who have dropped out of their course of studies. The Canada Student Loans Act defines a qualifying full-time student as someone registered at a designated education institution in a course of studies of at least twelve weeks' duration. It also stipulates that the loan becomes repayable by the student six months after he or she ceases to be a full-time student; it is interest-free during the interim. However, the Act contains no provisions for students who withdraw prior to completing their course of studies.

29.87 We analysed withdrawal data from one of the provinces we visited. This province calculates excess payments of provincial grants and loans from the date of withdrawal and tries to recover them. Moreover, it does not grant the six-month interest-free period to students who withdraw near the beginning of their course of studies.

29.88 To the extent that these data are representative of the rest of the country, we estimate excess Canada student loans to be over $15 million per year.

29.89 The additional annual cost to the Program is estimated at $10 million, since the cost to the taxpayer for each dollar of loans guaranteed by the Department is estimated at 65 cents. This cost includes payments to lenders for interest and claims for default, alternative payments to Quebec and the Northwest Territories, and collection costs.

29.90 The agreement between the Department of the Secretary of State and the provinces does not require that students pay back any portion of their Canada student loans when they withdraw from a course of studies. The Department is satisfied that the excess loan will be recovered when the student pays back the loan six months after withdrawal or completion of his or her course of studies. Moreover, students who never attend their courses of study, or who withdraw at an early stage, benefit from a six-month interest-free period under the Canada Student Loans Program.

29.91 The Department of the Secretary of State should seek revision of the Canada Student Loans Act and Regulations with respect to loans made to students who have withdrawn from studies, and ensure that the agreement defines the process for identifying and recovering excess loans as appropriate.

Management's response: *As noted above, the Department received legal advice in late 1988 indicating that, under the existing legislation, a student borrower cannot be required to return to a bank any portion of a loan that is no longer needed because the student has withdrawn from school. The Department will address this issue through legislative proposals intended to ensure that Canada Student Loan assistance is directed to those who truly need it.*

Loans receivable, including interest, totalled more than $666 million as of 31 July 1989, and represented 24 percent of the non-tax revenue receivable by the Government of Canada as of 31 March 1989.

Improvements needed in the management of accounts receivable

29.92 Under the Act, the Department of the Secretary of State must honour its guarantee and pay claims for defaults on loans when students do not reimburse lending institutions. From the Program's inception to 31 July 1989, lenders were reimbursed for claims totalling $858 million. Of this amount, $297 million was recovered and $28 million written off, leaving a total of $533 million still outstanding.

29.93 The balance of accounts receivable, including $133 million in accrued interest, stood at more than $666 million as of 31 July 1989, compared to only $246 million on 31 July 1984. This constitutes an increase of $420 million or 171 percent in five years.

29.94 Exhibit 29.8 gives an overview of the significance of the accounts receivable under the Program, which represented 24 percent of the non-tax revenue receivable by the Government of Canada as of 31 March 1989.

29.95 Claims for defaulted loans have significantly increased over the last five years, mainly due to a doubling of the loan limits. However, the corresponding claims receivables have remained relatively high, due mainly to a combination of a high rate of default and a low rate of recovery. Exhibit 29.9 shows the widening gap between the total amounts paid in default claims and the total amounts recovered.

High default rate

29.96 One student in six defaults on his or her loan. As shown in Exhibit 29.6, claims for default amounted to $156 million in 1988/89, representing 38 percent of Program costs, compared with 24 percent of costs in 1983/84.

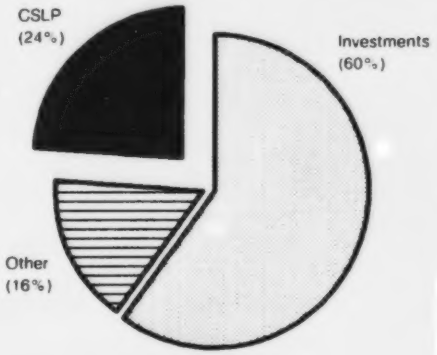
One student in six defaults on his or her loan.

29.97 Our audit found that, in the majority of cases, banks have made little effort to encourage repayment by students. The terms and conditions of the guidelines issued by the Department of the Secretary of State to lending institutions do not require a concerted effort by the lenders.

29.98 According to lenders, 30 percent of students who default cannot be located. The bank often has an address for the student that was temporary and is no longer valid. We noted that more recent addresses often are available in provincial files, but the Department of the Secretary of State does not require that they be provided to lenders.

Exhibit 29.8

NON-TAX REVENUE RECEIVABLE
by the Government of Canada
as at 31 March 1989
Total: $2.4 billion



SOURCE : Public Accounts of Canada 1988 89

29.99 The Canada Student Loans Act does not require that a penalty be assessed against a student who defaults. Moreover, the fact that students do not repay loans has no impact on their credit rating since this information is not released to credit bureaus. Data from lenders show that 44 percent of defaulting borrowers (former students) have been located but do not co-operate in repaying their loans.

29.100 The Department of the Secretary of State should revise the terms and conditions of its guidelines to lenders to ensure more aggressive follow-up and collection. Moreover, it should investigate alternative methods of encouraging students to repay their loans.

Management's response: *We agree, and the Department has already undertaken a number of initiatives designed to reduce the costs related to defaulted student loans. For example, one of the July 1989 amendments to the Regulations introduced greater flexibility in repayment agreements. Furthermore, ongoing discussions with the Canadian Bankers' Association and major chartered banks were intensified in February 1990 as a result of the Government's announcement in December 1989, on the Department's recommendation, of a number of expenditure reduction measures relating to Canada Student Loans. These discussions have led to the development of a number of new measures, which include not only more aggressive follow-up and collection, but also greater lender diligence in making and servicing loans, credit reporting on student loans, and jointly developed communications efforts. As these new measures are introduced, the guidelines to lenders will be amended accordingly. In addition, the Department has investigated and is currently developing other methods to encourage students to repay their loans, including ensuring that they are made fully aware of the consequences of non-repayment. It must be noted that, historically, about half the borrowers who default eventually repay their loans. The ultimate rate of non-repayment is therefore closer to one in twelve, a figure which can clearly be reduced further though the implementation of projects currently being planned to increase recoveries.*

Low recovery rate

29.101 Of the $858 million that the federal government has paid to lenders in default claims since the Program's inception, only $297 million, or 35 percent, has been recovered from students. Accrued interest of $104 million has also been recovered.

$33 million in accounts receivable has been written off because the Department considered the borrowers untraceable.

29.102 Few recovery efforts by the Student Assistance Directorate. Over the last five years, the Department has written off $44 million in accounts receivable, including $16 million in 1989-90 (see Exhibit 29.10).

Seventy-six percent of these accounts were written off because the Directorate considered the borrowers untraceable.

29.103 In March 1989 the Student Assistance Directorate identified through a matching process, a number of borrowers who had, in the past, defaulted on loans totalling $3.3 million; however, no action was taken to recover the amount owing until February 1990.

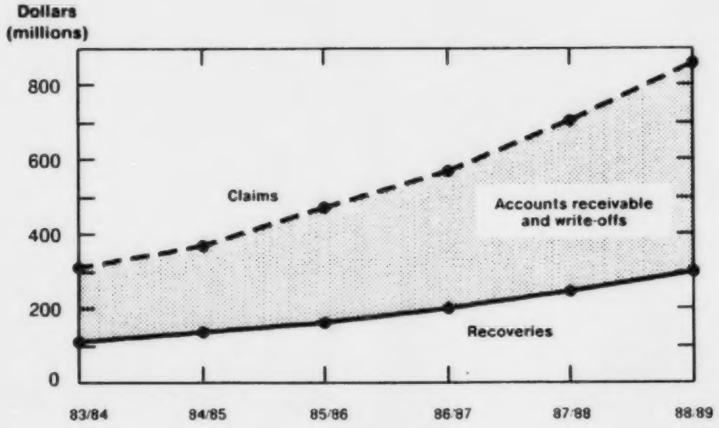
29.104 No other matching of accounts receivable files to data from other government sources is carried out by the Department of the Secretary of State, to locate borrowers or collect accounts. The Department might, for example, investigate the possibility of obtaining an exemption under section 241(4) of the Income Tax Act, which would enable it to use data from the Department of National Revenue, Taxation to locate delinquent debtors.

29.105 Successful American recovery program. In 1989 the United States General Accounting Office reported that $2.4 billion had been recovered since 1982, through the Refund Offset Program administered by the Internal Revenue Service. Approximately $1.8 billion of this amount was collected by withholding tax refunds to cover unpaid child and spousal support, while $0.6 billion was collected for unpaid federal non-tax debts. Nine departments participate, including the Department of Education which administers the student loans guarantee program.

29.106 Costs related to the administration of this program have amounted to less than one cent for each dollar recovered. By comparison, the Department of the Secretary of State uses the services of collection agencies whose costs range from 19 to 28 cents for every dollar recovered.

Exhibit 29.9

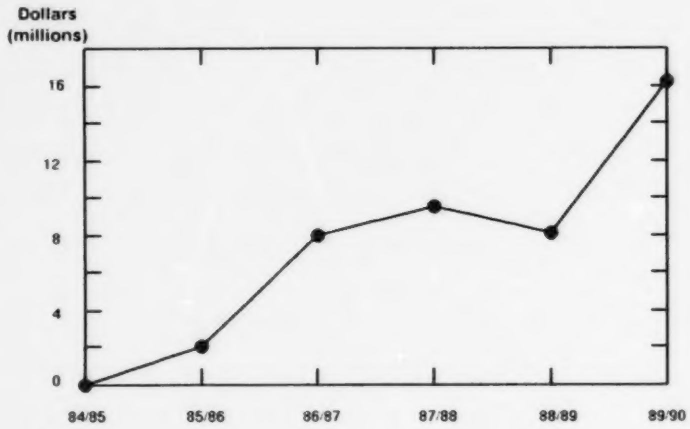
CANADA STUDENT LOANS PROGRAM (CSLP)
CLAIMS FOR DEFAULT OF PAYMENT AND RECOVERIES
(cumulative balances)



SOURCES: CSLP 1987 88 Annual Report and the Student Assistance Directorate of the Secretary of State

Exhibit 29.10

CANADA STUDENT LOANS PROGRAM (CSLP)
WRITE-OFFS
(excluding write-offs for death or permanent disability)



SOURCES: *Public Accounts of Canada and the Student Assistance Directorate of the Secretary of State*

29.107 The Department should be more aggressive in recovering accounts receivable and should consider the possibility of recovering these amounts from other sums owed to debtors by the government.

Management's response: *The Department had previously identified this issue, and recognized the end of the three-year term of its agreement with collection agencies as an opportunity to address it. As a result, all collection agents handling accounts receivable referred under the new three-year agreement, which took effect 1 April, 1990, are subject to strict new directives and procedures developed by the Department to ensure greater accountability, control, and achievement in the management and collection of receivables. Further projects designed to increase recoveries are planned. In consultation with other federal departments, primarily the Office of the Comptroller General, consideration is being given to how receivables could be recovered from other sums owed by the government. The United States' experience in this regard has been carefully examined.*

Lack of tools for sound program management

29.108 No program evaluation. Although it is a Treasury Board requirement, the Student Assistance Directorate has never been subjected to a program evaluation. However, such an evaluation is planned for 1991/92.

29.109 Inadequate management information system. The management information system used by the Student Assistance Directorate dates back to 1968 and no longer meets the needs of users (see paragraphs 29.51 and 29.52).

29.110 The system does not provide information such as rates of default; the impact of high indebtedness on repayment of loans; recovery rates of collection agencies; and the total cost of recovery efforts. Moreover, the system is incapable of providing the exact balance of accounts receivable at any given time.

> *The Directorate has little relevant information to manage accounts receivable with due regard to economy and efficiency.*

29.111 Consequently, the Directorate has little information to manage accounts receivable with due regard to economy and efficiency.

29.112 The Department should ensure that the Student Assistance Directorate has an adequate management information system which provides the information needed to manage the Program with due regard to economy and efficiency.

Management's response: *We agree, and we would note that important improvements have been made within the confines of the current system and current resources. For example, a new framework that will provide better financial and operational information has been designed and is now being implemented. Over the next few years, as the systems and financial management work of the program is contracted out, the capacity of any private sector firm to provide an adequate management information system will be a prime consideration. In the interim, strengthening of the organization's capacity to provide program management information will continue.*

Incomplete and Inaccurate Information to Parliament

29.113 Information on the Canada Student Loans Program is conveyed to Parliament in an annual report and in Part III of the Estimates.

29.114 This information is incomplete, since accounts receivable are not mentioned despite representing 24 percent of the non-tax revenue receivable by the Government of Canada as of 31 March 1989 (see Exhibit 29.8). In addition, no mention is made of write-offs, which have increased rapidly over the last few years (see Exhibit 29.10), nor is qualitative and quantitative information included, such as on the achievement of Program objectives, on default rates, on the recovery rate for accounts receivable, and on the ratio of recovery costs to amounts recovered.

29.115 In spite of legislative requirements to do so, the Department of the Secretary of State has not produced annual reports for the Canada Student Loans Program for 1985/86 and 1986/87. Tables covering those two years were inserted in the 1987/88 annual report.

29.116 We noted that the annual report contains a number of errors. These errors related to collection costs, to total numbers of students who have obtained loans since the Program's inception, to service fees paid to provinces, and to the number and value of loans authorized and negotiated by provinces. In fact, the total value of loans negotiated for 1983/84 to 1987/88 was understated by $162 million, a discrepancy of nearly 6 percent.

29.117 Furthermore, one must question the source and accuracy of estimated expenditures published in Part III of the Estimates. We noted significant differences between estimated and actual expenditures for interest and for default claims. For instance, in 1988/89 the spread between estimated and actual expenditures was 23 percent for default claims and 18 percent for interest. In addition, we found a spread of 45 percent for default claims in 1986/87.

29.118 The Department of the Secretary of State should convey accurate, complete and relevant information on the Canada Student Loans Program to Parliament on a timely basis.

Management's response: *We agree. Problems with the automated system that provides the data presented in the annual* *reports were identified in 1989. It has now been modified to ensure greater accuracy and reliability. Future annual reports and other documents provided to Parliament will include the information suggested by the Auditor General.*

Canadian Studies

29.119 The Department supports Canadian studies by providing financial assistance of approximately $1.5 million per year for the development, promotion and distribution of related educational material.

29.120 Our review of this Directorate was limited to a follow-up of corrective measures implemented after an internal audit.

Follow-up of corrective measures

29.121 In the autumn of 1988, the Canadian Studies Directorate was the subject of an audit by the Department's internal audit group and a follow-up the next year. In general, operational management was deemed satisfactory and the follow-up determined that the Directorate had implemented corrective measures or was in the process of doing so.

30

Department of Transport

Airports

Department of Transport

Airports

Main Points

30.1 **Years of planning for new urban runways.** After years of planning runway expansion at Pearson and Vancouver Airports, the dilemma of how to meet the demands of ever-increasing air traffic, while ensuring the protection of the environment, remains unresolved (paragraph 30.11).

30.2 **Grappling with deregulation for the past five years.** The Department of Transport has been grappling with the demands of deregulation, at hub airports under conditions of government fiscal restraint. In our opinion, other long-standing issues have also limited the Department's ability to respond. The Department has lacked a national policy framework for the airports network, and criteria for rationalizing its financial involvement in airports. Today, it has no plan for funding a $1.4 billion shortfall for capital requirements over the next five years. Federal Dependent Airports continue to be dependent on government appropriations, and on the allocation of a ticket tax, for 88 percent of their costs for 1988/89 (30.12 to 30.36).

30.3 **Unprepared for today's deregulated commercial environment.** We found an organization required to operate in a competitive commercial environment, managing in accordance with bureaucratic rules. After years of effort the Department still lacks a pricing policy compatible with its current cost-recovery objectives, as well as sufficient timely cost information.

30.4 Costs recovered for passenger processing in 1987/88 were estimated to be $61 million less than full costs. We estimated up to $11 million in foregone revenues each year in parking. General Terminal Fees are charged at only 14 Federal Dependent Airports, with a potential foregone revenue of up to $6 million each year (30.37 to 30.67).

30.5 **Concerns about the future.** In our opinion, the financial management of the Airports Revolving Fund continues to be weak. We have concerns about whether the Department has the financial experience needed to handle tomorrow's financing arrangements and transfers of airports.

30.6 The Department is now developing a decision-making model for assessing its use of private sector financing options. We believe the Department needs to conduct a post-project review of Terminal 3 before proceeding with similar transactions in the future. This review should focus on the methodology used to calculate the projected benefits to the Crown of choosing the private developer option, and it needs to assess the adequacy of safeguards to protect the interests of the Crown in revenue-sharing arrangements (30.68 to 30.89).

Table of Contents

Paragraph

Introduction to Airports 30.7

Audit Scope 30.10

Observations and Recommendations

- Urban Runways - an Old Problem, an Uncertain Future 30.11
- Lack of a Clear Management Strategy and a Plan for Financing Present and Future Capital Needs 30.12
  - Lack of guidance on how to respond to the demands of economic deregulation (30.12)
  - Lack of a clear rationale for the Department's role in operating and financing airports (30.17)
  - Elements of a capital process, but no funding plan for a $1.4 billion shortfall (30.21)
  - Commuter terminal capacity - response at two hub airports governed by local circumstances rather than by a policy framework (30.25)
  - Pearson Airport - three terminals; three different roles and funding philosophies (30.28)
  - Federal Dependent Airports - no financial plan to reverse continued dependency (30.33)
- Airports Not Prepared for Today's Deregulated Commercial Environment 30.37
  - Lack of flexibility and tools for financial self-sufficiency (30.37)
  - Failure to recover groundside costs (30.57)
- New Financing Arrangements Will Require Development of New Financial Expertise 30.68
  - Terminal 3 - concerns about safeguards to protect the interest of the Crown (30.68)
  - Airports at a crossroads (30.85)

Major Departmental Initiatives 30.89

Exhibits

30.1 Framework for Airports Audit
30.2 Headlines
30.3 Pearson Airport - 20 Years of History
30.4 Vancouver Airport - 20 Years of History
30.5 Capital Funding Shortfall
30.6 Lester B. Pearson International Airport
30.7 Financial Performance - Major Federal Airports and Federal Department Airports - 1988/89
30.8 Fees, Rates and Regulations Related to Passenger Services
30.9 Key Financial Tools
30.10 Major Departmental Initiatives

Department of Transport

Airports

Introduction to Airports

30.7 The Airports Group, a branch within the Department of Transport, has as its stated objective "ensuring the availability and reliability of a safe, secure and efficient national civil airports system in Canada". The Airports Group has placed airports in three categories: Major Federal Airports (MFAs), Federal Dependent Airports (FDAs) and Development Airports. The Airports Group operates all eight MFAs, located in Halifax, Montreal (Mirabel/Dorval), Toronto (Pearson Airport), Ottawa, Winnipeg, Calgary, Edmonton and Vancouver. The stated objective for the MFAs is to ensure the provision of an accessible network of financially self-sufficient civil airports.

30.8 The FDAs include airports operated by the Airports Group and airports operated by others. The first category comprises 97 airports across the country, such as at St. John's, Gander and Victoria. Many of these airports serve the less densely populated and more isolated areas of the country. The Department of Transport also provides financial assistance to regional and local airports operated by other levels of government. Development Airports include small airports in Labrador, Northern Quebec and the Northwest and Yukon Territories.

30.9 What is unique about the Department of Transport is that it must operate in a fast-paced, highly commercial airports environment, but within the rules of the bureaucracy. In 1988/89 the Department handled commercial revenues of over $400 million derived from landing fees, terminal rentals, concessions and other sources. This extensive commercial involvement calls for flexibility in decision making to respond to market demands, and for strong financial capability.

> *What is unique about the Department of Transport is that it must operate in a fast-paced, highly commercial airports environment, but within the rules of the bureaucracy.*

Audit Scope

30.10 In 1985, we reported on airports as part of our audit of the Canadian Air Transportation Administration (CATA). Since then CATA has been restructured into two separate activities, Airports and Aviation. The Aviation activity includes the sub-activities of Air Traffic Control, Air Navigation, Aviation Regulation, Aviation Safety and Aircraft Services. An audit of the Aviation activity is scheduled for a later date. Our audit of the Airports Group focussed on whether the Department of Transport has the planning, financing and management tools to respond effectively to today's competitive, deregulated, commercial airports environment. The scope of our audit and the areas we excluded are illustrated in Exhibit 30.1.

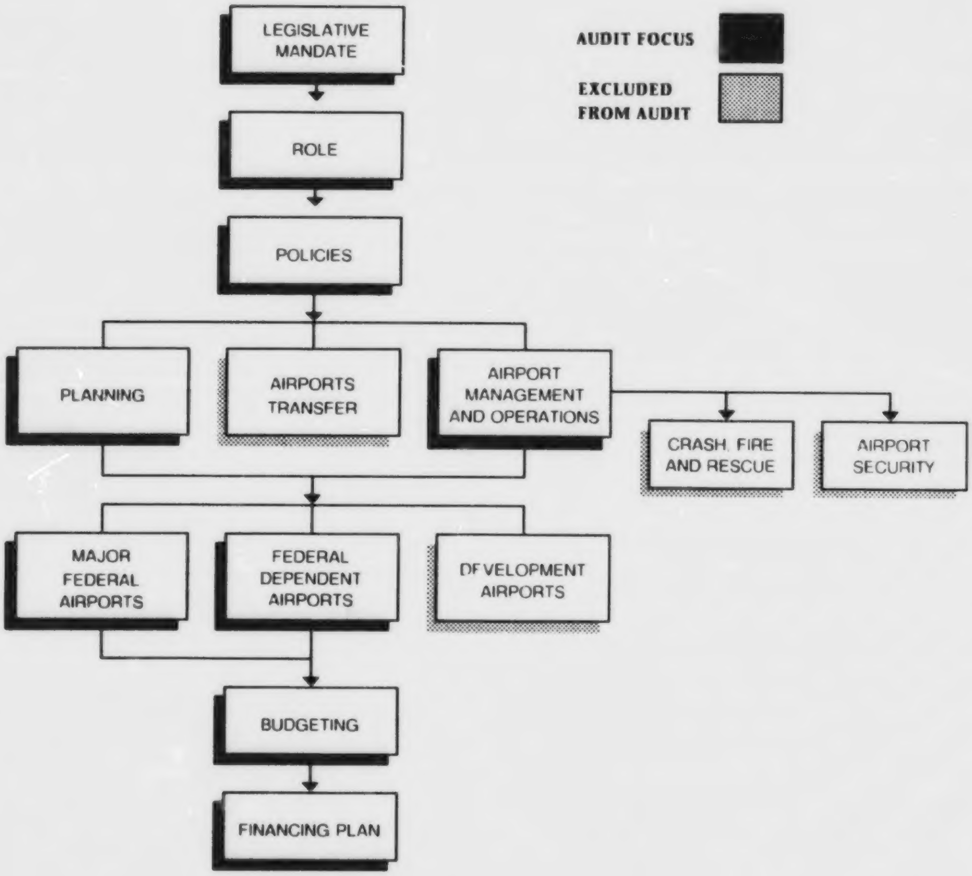
Observations and Recommendations

Urban Runways - an Old Problem, an Uncertain Future

30.11 Airport capacity is affected by such factors as weather, air traffic control capability and runway capacity. For over twenty years

Exhibit 30.1

FRAMEWORK FOR AIRPORTS AUDIT


LEGISLATIVE MANDATE
ROLE
POLICIES
PLANNING
AIRPORTS TRANSFER
AIRPORT MANAGEMENT AND OPERATIONS
CRASH, FIRE AND RESCUE
AIRPORT SECURITY
MAJOR FEDERAL AIRPORTS
FEDERAL DEPENDENT AIRPORTS
DEVELOPMENT AIRPORTS
BUDGETING
FINANCING PLAN
AUDIT FOCUS
EXCLUDED FROM AUDIT

airport planners, different levels of government, local communities and their elected representatives have addressed the dilemma of reconciling the demands of economic progress with the rights of communities affected by increased noise levels, and the effects of new runway construction on environmentally sensitive lands. Exhibit 30.2 illustrates these and other public concerns. The following case studies dealing with Canada's largest airports reflect the difficulties of reconciling these demands.

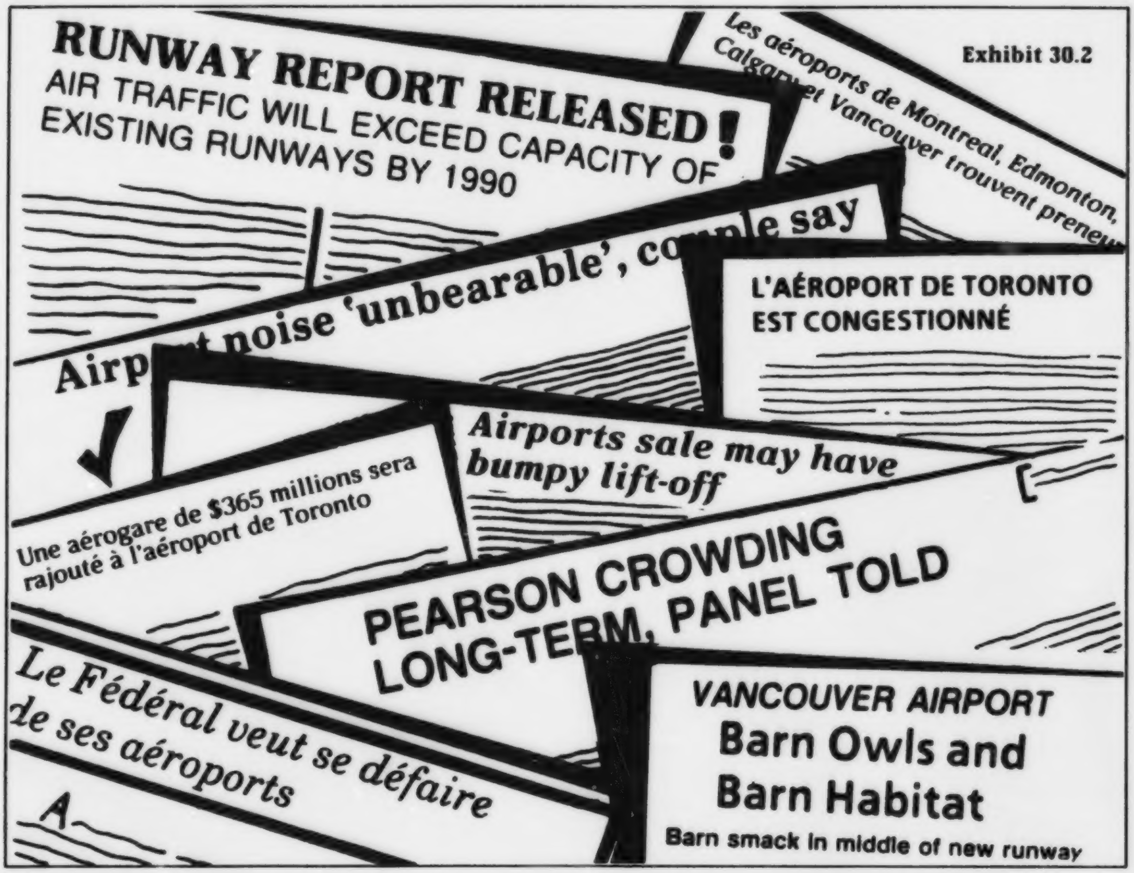
- **Constraints to implementing long-term plans for the expansion of Lester B. Pearson International Airport (Pearson Airport).** Exhibit 30.3 chronicles a 20-year history of planning efforts at Pearson Airport. It demonstrates the role that government decisions have played; it also illustrates that successive studies have not led to action that would resolve the runway issue.

- In December 1988, a departmental press release noted that aircraft were sometimes delayed up to four hours, and that the level of service was lower than Canadians had come to expect. The press release also announced a cap of 70 peak-hour aircraft movements (takeoffs or landings), a reduction of approximately 15 percent from then-prevailing levels. The airport did not have a method for gauging the extent and impact of delays.

- The Department had undertaken studies as far back as 1967 which had forecast a need for development of runways, passenger terminals and related groundside facilities. In 1989 the Department identified a likely need for two additional runways. The location of these runways is still subject to several pending technical and environmental studies.
- An Environmental Assessment and Review Panel has completed its draft guidelines for the preparation of an Environmental Impact Statement, expected to address the issues identified by the panel. These include the noise impact on surrounding communities, which have expanded since 1967; the impact on the environment in the area of the Etobicoke Creek that runs through the middle of the infield; potential runway locations; and an evaluation of alternatives. Assuming the review panel approves the runway expansion, construction of new runways could take three years.
- An economic impact study prepared for the airport documented its contribution to the local economy. The study estimated the annual direct economic impact on business revenues, personal income and local tax revenues to be approximately $5 billion.
- The dilemma of reconciling the need for new runways against the social and environmental impacts remains unresolved.
- **Vancouver International Airport (Vancouver Airport) -- three proposals to expand runways since the early 1970s.** Exhibit 30.4 depicts the 20-year history of planning for the parallel runway at this airport. The exhibit illustrates the Department's three proposals to secure the new runway and the difficulties encountered in the process.
- The Airside Capacity Enhancement team, which monitors departure delays, reports that approximately 40 percent of aircraft

The dilemma of new urban runways remains unresolved (see paragraph 30.11).

Exhibit 30.2


RUNWAY REPORT RELEASED!
AIR TRAFFIC WILL EXCEED CAPACITY OF EXISTING RUNWAYS BY 1990
Les aéroports de Montreal, Edmonton, Calgary et Vancouver trouvent preneu
Airport noise 'unbearable', couple say
L'AÉROPORT DE TORONTO EST CONGESTIONNÉ
Airports sale may have bumpy lift-off
Une aérogare de $365 millions sera rajouté à l'aéroport de Toronto
PEARSON CROWDING LONG-TERM, PANEL TOLD
Le Fédéral veut se défaire de ses aéroports
VANCOUVER AIRPORT
Barn Owls and Barn Habitat
Barn smack in middle of new runway

departures are delayed. Ten percent of all delays are longer than 20 minutes. Costs of departure delays to airlines alone average $9.6 million annually. Arrival delays are not monitored and as a result their costs cannot be quantified.

- An economic impact study prepared in 1989 estimated that the airport generated a total annual benefit of $1.55 billion to the local economy.
- At the completion of our audit, the outcome of the parallel-runway proposal and the future of the airside capacity at this major hub airport remained unresolved.

Lack of a Clear Management Strategy and a Plan for Financing Present and Future Capital Needs

Lack of guidance on how to respond to the demands of economic deregulation

30.12 By the time the Department formally introduced deregulation in Canada, the United States had already spent ten years in this environment, and trends could have been identified from analysing the U.S. experience. Air traffic volumes had increased in the U.S., with a move to more frequent flights using smaller aircraft. Airlines had moved to hub and spoke operations. Major hub airports had experienced airside capacity problems, resulting in delays to scheduled air carrier operations.

Exhibit 30.3

PEARSON AIRPORT - 20 YEARS OF HISTORY

Date	Event	Planning Implications
1968	Government decision against full-scale expansion	Runway expansion on hold
1975	Freeze on development of Pickering site	Narrows options for coping with increased demand
1977	Malton contingency plan identifies the need for new facilities and added capacity	Articulates the planners' dilemma: need for more capacity, but few options available
1978	Government reiterates the 1968 commitment – studies on fourth runway stopped	Planning for runway expansion remains on hold
1979	Southern Ontario multi-modal passenger studies indicated that surface transport solutions would not have significant impact on Pearson Airport needs	Need for additional capacity confirmed
1985	Central Ontario area master plan prescribed airport roles and identified the need for a general aviation reliever facility	The search for options continued
1988	Cap of 70 peak-hour movements reduced from prevailing 82 peak-hour movements	Utilization forced below runway capacity. Existing demand exceeds capacity and is growing
1989	Government decision – Pearson airport to be developed to its optimum capacity. Additional runways to be studied	Issues for constructing new runways remain the same as 20 years ago
1990	Southern Ontario area systems plan. Cap of 70 peak-hour movements increased to 76 peak-hour movements	Another study of the roles and potential of regional airports

30.13 Similar trends emerged in Canada, following the Minister of Transport's decision to deregulate over a five-year period from 1983 to 1988. Air traffic increased and the airlines continued to move to hub and spoke operations. Activity centred around two hubs -- Pearson Airport and Vancouver Airport. In 1987, 46 percent of total passenger enplanements and deplanements were handled at these two airports -- 32 percent at Pearson Airport alone. Halifax International Airport (Halifax Airport) and Quebec Airport also emerged as hubs. Major delays were experienced at some key airports, due in part to the increase in air traffic volumes and the rise in commuter activity. These developments raised the need for increased runway and air terminal capacity, and for passenger terminal facilities appropriate to the smaller commuter aircraft.

30.14 This increased the demand for capital at major hub airports. The Department stated that it was constrained by a reduction in

Exhibit 30.4

VANCOUVER AIRPORT - 20 YEARS OF HISTORY

Date	Event	Planning Implications/Outcome
1972	Department recommends constructing parallel runway	Expropriation of remaining land required
1973	Intergovernmental committee formed to address problems of joint concern	Different views on airport development emerge
1976	Intergovernmental committee decides against parallel runway	Planning for runway expansion on hold
1982	Department prepares second proposal for runway construction	Proposal shelved when effects of economic recession reduce traffic
1983	Boundary Bay Airport reactivated	Recreational and training flights shifted from Vancouver Airport
1988	Airside Capacity Enhancement (ACE) team formed to solve airside congestion	Capacity increased through changes to airfield and operating procedures
1989	ACE team demand/capacity analysis concludes annual movements exceed practical runway capacity	New parallel runway identified as long-term solution to airside congestion
1990	Preliminary environmental impact statement published on new parallel runway	Study identified environmental issues including noise and wildlife impacts, air and water quality impact

available capital and in person-years, brought about by the government's deficit reduction/downsizing initiatives, and by competition for capital with other modes of transportation funded by the Department. The Department has stated that it responded by adopting a philosophy of "flexibility", and by deciding to not build additional airport capacity in advance of demonstrated need and to seek other sources of funding. However, the Department failed to provide airport managers with the strategies, policies and financial tools to implement this philosophy.

30.15 Although deregulation significantly changed the operating rules for the airlines, we found no companion policy setting out how the Department would respond to the deregulation challenges in times of restraint. For example, we found that the Department had not completed:

- a re-examination of its role in the provision of airport services in Canada, to include establishing criteria for federal funding to airports in the future, as well as an implementation plan for rationalizing federal involvement in existing airports; and
- a national policy framework for more detailed long-range planning, providing a foundation for capital and operational planning.

30.16 In our opinion, other long-standing issues have further limited the Department's ability to respond. Specifically, the Department

Deregulation places heavy demands on Canada's hub airports (see paragraph 30.13).

has lacked a clear rationale for its operating and financing role in airports and has lacked a capital funding plan. As a result, we found various responses to dealing with commuter terminal capacity at two hub airports, a variety of approaches to funding terminals at Pearson Airport, and a pattern of continued financial dependence at FDAs.

Lack of a clear rationale for the Department's role in operating and financing airports

30.17 The Aeronautics Act gives the Minister of Transport broad powers with respect to airports. The Minister may "... construct, maintain and operate aerodromes and provide other facilities and services relating to aeronautics..." However, there are neither express provisions in the Act requiring the Minister to construct an airport, nor statutory obligations to continue to own, operate, maintain or finance airports.

30.18 The Department has been trying to rationalize its role in airports for at least ten years. For example, a 1981 study concluded that the federal role had become less well-defined, with practice diverging from apparent policy. The result of this lack of clarity was that the Department's involvement in airports lacked, in many respects, an identifiable pattern or logic. Since the Department is responsible for largely the same airports today, this conclusion still holds.

The result of a lack of clarity in its role was that the Department's involvement in airports lacked, in many respects, an identifiable pattern or logic.

30.19 As a result, the Department's current involvement in airports is a patchwork. It owns 135 of 466 licensed/certified land airports. Of these, it owns and operates 76; contracts out the operation of 14; leases 21 to others for subsidized operation; leases 21 to others for unsubsidized operation; and has 3 operated by territorial governments under special agreement. It also subsidizes 53 land airports owned by other operators, and operates 10 airports owned by others. At most of the larger airports the Department of Transport is the operator, but several regional airports are municipally operated. The Department could not provide us with criteria by which airports qualify for capital and operating subsidies.

30.20 The Department should re-examine its role in the provision of airport services in Canada, develop criteria setting out the conditions under which federal funding will be provided to airports, and develop a plan for the rationalization of federal asset holdings and financial involvement in existing airports.

Department's response: *The Department concurs with the recommendation. A Terms of Reference for a study addressing these points has been developed and is now under examination by the Department.*

Elements of a capital process, but no funding plan for a $1.4 billion shortfall

30.21 An objective of airport planning is to ensure that the Department can meet current and future demands for facilities, levels of service and capacity, and that adequate funds are available to meet these obligations. The product of a well-functioning capital and financial planning process is availability of the right facilities to meet both existing and projected demand. To ensure success, demand should be anticipated well in advance -- given the lead times associated with large construction projects -- and a funding plan is necessary to determine who is going to pay for the needed facilities.

30.22 Some elements of a capital planning process are in place, such as regional business plans. However, the Department could not provide us with a comprehensive plan or philosophy for funding routine maintenance, restoration and expansionary capital needs of its airports infrastructure, which has a replacement value of almost $10 billion. Of this amount $4.5 billion of which relates to MFAs and $5.5 billion to FDAs. In short, the Department does not have the financial instruments it needs to operate in a commercial manner in the present deregulated, highly commercial environment, and to meet its stated objective of achieving a commercially-oriented management approach.

30.23 The need for such instruments, and the consequences of not having them, are illustrated by the fact that there is:

- a shortfall of $1.4 billion between the Department's stated capital needs and the anticipated funds available from operations, appropriations and the Air Transportation Tax (a ticket tax) over the next five years (see Exhibit 30.5). These figures assume the current rate and cost structure. This shortfall, identified by the Department, does not take into account the financial impact of changes to the original scope of the Terminal 3 concept at Pearson Airport, which may increase the shortfall.

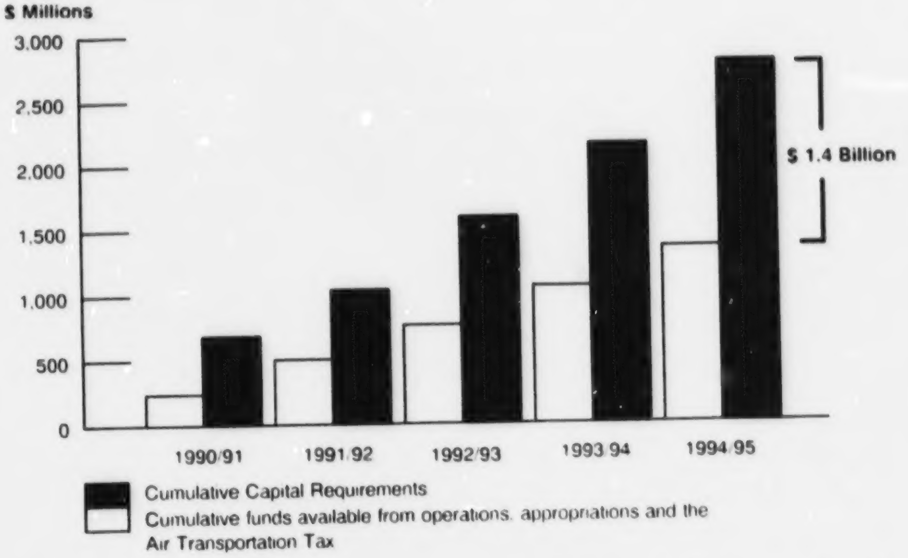
- no plan or philosophy for funding this projected shortfall that would identify the capital needs of the airports, and the funding options available.

30.24 The Department should develop a business plan for meeting the capital and operating requirements of the 1990s. Specifically, the Department should develop a financing philosophy, and a funding plan for meeting future capital requirements of the airports.

Department's response: *The Airports Group has prepared a business plan outlining operational and capital requirements. The Department has developed a Capital Investment Plan which addresses the needs of the Airports Group in global terms over the next five years. Within the context of this plan, specific Airports projects, along with those of other groups, are priorized based on an evaluation against specific criteria. It should be noted that the shortfall as specified by the Auditor General is based on departmental estimates of capital requirements. The Department concurs that the Capital Investment Plan should take account of the available sources of funding.*

Exhibit 30.5

CAPITAL FUNDING SHORTFALL



SOURCE: *Main Estimates Program Summaries, Departmental Revenue Forecasts, Draft Airports Authority Group Business Plan (1989/90)*

Commuter terminal capacity - response at two hub airports governed by local circumstances rather than by a policy framework

30.25 In response to deregulation, airlines in Canada made large changes to their aircraft fleets. To service smaller centres, the mainline carriers switched from jet service to smaller turbo-prop aircraft. More flights with smaller aircraft were required to accommodate the same number of passengers. As a result, the hub airports experienced an increase in "commuter" traffic (movements of aircraft less than 35 tonnes). For example, commuter traffic increased at Pearson Airport from 30,000 movements in 1985 to 70,000 movements in 1988; at Vancouver Airport, from 51,000 movements in 1985 to 102,000 movements in 1988; and at Halifax Airport, from 770 movements in 1985 to 30,800 movements in 1988.

30.26 The following cases demonstrate how two hub airports have responded to the growth in commuter traffic. Their responses have been shaped largely by local circumstances and fiscal restraint, rather than by a policy framework.

- **Halifax Airport walkways.** The situation at Halifax Airport illustrates the impact of the changing aircraft type. Halifax Airport was originally designed as a second-level departure airport. Commuter aircraft are too small to use the second-level loading bridges that passengers use to board jet aircraft. Because of the location of existing jet aircraft loading bridges, the only places to situate commuter aircraft are at the far ends of the parking apron, necessitating a long walk outside the building for passengers. Airlines wanted to reduce this distance.

- In 1988 the Department commenced negotiations with Air Atlantic and Air Nova for the airlines to construct temporary walkways. The deal was structured in the form of a lease, with the completed facilities considered as leasehold improvements. In addition, Air Nova was to construct, as permanent facilities, a satellite holdroom and attached walkway on the second level, with bridge compatibility for small jets. The airport was to purchase these facilities after securing Treasury Board approval. After Air Nova had spent approximately $700,000, concerns arose about whether the Department would be able to secure Treasury Board approval, and construction stopped in 1989. The Department stated that, although it endorses the requirement for the improvements, present priorities and fiscal problems make their funding highly unlikely in the near future.

- **Vancouver Airport.** Vancouver Airport deems control of facilities important to managing the needs of the airport, and those of competing airlines, without adverse effects on the travelling public.

- In keeping with this philosophy, planning for a commuter facility to meet an immediate need has continued for over three years but no project has yet been approved. The airport initially proposed a $17 million project, but this was seen by headquarters as too costly. A second proposal for $11.7 million has recently been submitted to headquarters. The airport has ranked the project first in its funding priorities for 1990/91, because it is seen as necessary to meeting current demand. If the project were to be approved today, it would not be completed until 1992/93.

30.27 In our opinion, the Department lacked the policy framework necessary to ensure the provision of responsive airports, and to support the difficult trade-off decisions entailed by increased demands for service in times of restraint. We observed similar patterns at Pearson Airport, which we came to see as exemplifying the Department's response to the demands of deregulation.

Pearson Airport - three terminals; three different roles and funding philosophies

30.28 Starting in early 1991, Pearson Airport will have three passenger terminal buildings of differing age and design (see Exhibit 30.6). Each building has its own distinct mode of operation. The current situation in the three

Halifax walkways

Commuter facilities constructed by the airlines (see paragraph 30.26).

terminals raises a number of key strategy and planning issues that the Department has not yet resolved, and displays the current federal role in Canadian airports.

30.29 The 1982 Pearson Airport Master Plan stated that the airport would continue to be an important component of the national system, a major national hub for domestic, transborder and international air travel and the primary terminus for major air carriers serving the Toronto area. However, the 1988 Pearson Airport Business Plan noted that this role statement had provided inadequate policy direction for meeting demands of traffic, and that to develop the airport's strategies it was essential that the role be restated to reflect the current environment.

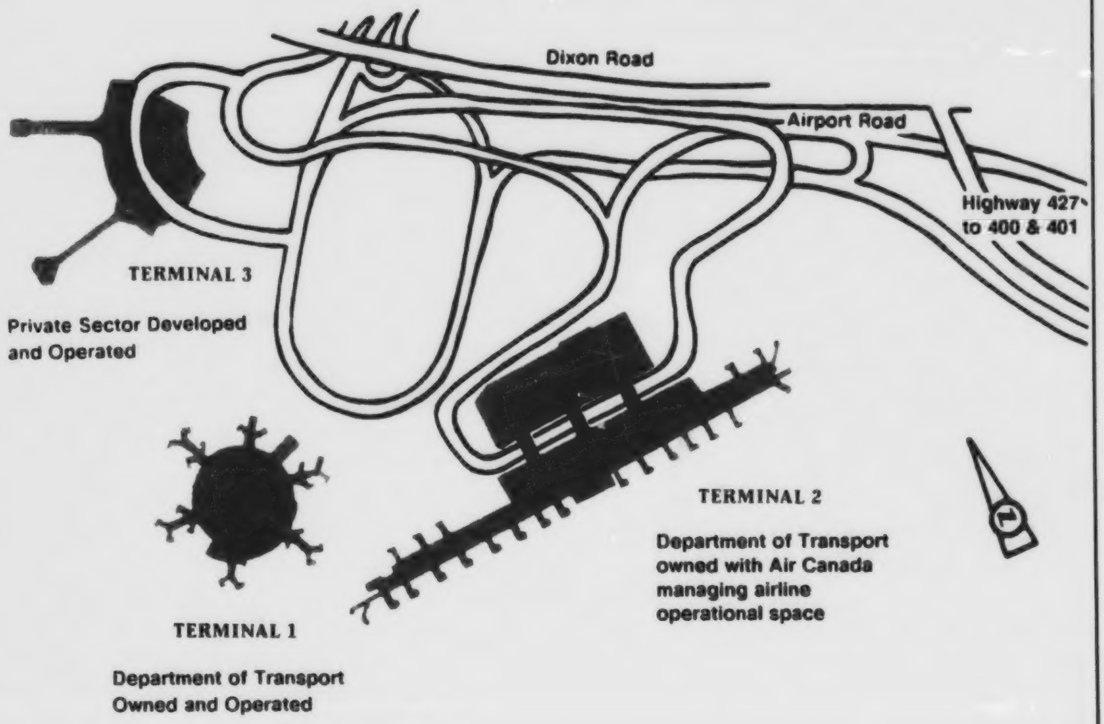
> *The Department states that it has been "climbing the learning curve" with private sector financing.*

30.30 The following cases illustrate a response dictated by specific circumstances, rather than one in accordance with a policy framework.

- **Terminal 1.** The oldest of Pearson Airport's terminals, Terminal 1 reflects how the Department perceived its role prior to deregulation. In the past, the Department constructed all facilities at airports it owned

Exhibit 30.6

LESTER B. PEARSON INTERNATIONAL AIRPORT


Dixon Road
Airport Road
Highway 427 to 400 & 401
TERMINAL 3
Private Sector Developed and Operated
TERMINAL 2
Department of Transport owned with Air Canada managing airline operational space
TERMINAL 1
Department of Transport Owned and Operated
N

and operated: at Terminal 1 it continues to pay for original construction and subsequent modifications. Terminal 1 needs mechanical modifications and major renovations, as evidenced by the deteriorating parking structure (see Chapter 3, Audit Notes). Only relatively small changes are planned while the Department attempts to define the role that Terminal 1 will play after Terminal 3 opens. The Department has advised us that, due to the merger of Canadian Airlines International Limited (CAIL) and Wardair, Terminal 1 will be used less than had been foreseen. It could remain underused until the airside capacity of the airport is increased. In the absence of a plan to finance needed major renovations, there is a risk that the taxpayer will be required to absorb the costs.

- **Terminal 2**. Terminal 2 was constructed by the Department on the same basis as Terminal 1 -- a Department-owned and operated terminal. Air Canada is the major tenant of the terminal, and in its transfer from Terminal 1 in 1972, it was allowed to construct its own bridges to the gates of the terminal, and to provide its own system for outbound baggage. Air Canada's ownership of these important feeder systems was the first in a series of steps which altered the traditional landlord-tenant relationship.

- The three projects we examined show three different types of involvement by the Department as leaseholder. Module Q is a project involving a gate extension and international baggage claim expansion, completely funded by the Department. The Gate 80 extension, which was intended to handle commuter traffic, was a project funded entirely by Air Canada. The renovations and enlargement to the domestic wing involve cost-sharing with Air Canada; the Department will be responsible for $18 million of the $53 million cost. This will constitute the first phase of an overall $240 million redevelopment proposal by Air Canada. Responsibility and funding for the remainder of the proposal have yet to be determined. Air Canada is the lessee in all cases, but a different funding relationship exists in each. Although we recognize that each arrangement is unique, what is lacking are a policy and criteria covering the general circumstances under which each funding option is most appropriate, as well as a statement of the anticipated risks and benefits of each option, in terms of return on investment or degree of control.

- The following questions remain to be answered about Terminal 2:

    - What is to be the Department's future role in this terminal?

    - What funding relationship should exist with Air Canada?

    - If major financing is undertaken by Air Canada to implement its proposal for the $240 million redevelopment of Terminal 2, what will be the "cost" to the Department (less control over facilities, reduced rental revenue, participation by Air Canada in concession revenue)?

- **Terminal 3**. One response by the Department to the new environment has been a change in its approach toward constructing, operating and funding terminal buildings. Given the importance of Terminal 3 to Pearson Airport operations, the private developer option is a major shift in the Department's role, to one of property manager and regulator.

The Department sought and obtained proposals from private developers for a new air terminal building at Pearson Airport. A contract was awarded to the Airport Development Corporation, a consortium of private interests.

Although the initial deal has been struck, there is a need for continued monitoring of subsequent developments to ensure that the interests of the Crown are safeguarded. The Department states that it has been "climbing the learning curve" with private sector financing. A post-project analysis should include such areas of potential risk as:

- the need to balance traffic and air carriers between Department-owned and developer-owned terminals;
- differing charges at various terminals in the same airport (cost recovery versus profit);
- criteria to be used by the developer and the Department in selecting or rejecting air carriers to operate in the terminal;
- differing levels and standards of service to the public, among terminals;
- flexibility allowed the private developer in selecting concessionaires, versus public tender required of the Department; and
- ground transportation problems (licensing taxis and limousines, tendering for shuttles, intra-airport links among terminals).

30.31 We concluded that the Department lacks a policy statement and a financing philosophy, supported by an analysis of the implications that increased use of private sector financing has for the Department's control of airports. Our concern is over the lack of a policy framework supporting the solutions chosen.

30.32 The Department should clearly define its future strategic role in Major Federal Airports and develop a policy framework for the use of private sector financing, based on a comprehensive analysis of financial and control implications.

Department's response: *The Department undertakes to promulgate its understanding of its future role in airports. A decision model for the use of private sector financing has been developed and will be expanded into a policy framework.*

Federal Dependent Airports - no financial plan to reverse continued dependency

30.33 The Department's objective for the FDAs is to provide "an accessible network of civil airports subject to demand being sufficient to recover a predetermined percentage of the network's annual operating costs." We noted that, notwithstanding the Department's stated objective, an annual national target for recovery has not been established, although targets have been set for site and regional financial performance -- for example, in the Pacific Region. The Department could not provide us with a current evaluation of whether demand is sufficient to meet that target. Our analysis indicated a wide variation among airports in operating costs per passenger; the amounts recovered varied from 3 percent to 59 percent of operating expenditures (on an estimated full-cost basis). The Department states that this variation is explained in part by differing financial maturity levels of the airports, and by other social objectives served.

30.34 The FDAs continue to be dependent on the public purse and the Air Transportation Tax (ATT) allocation. The Department could not provide us with a cost-based operating statement for the FDAs, but our estimate, using cash-based financial information as a starting point, indicated that the 1988/89 overall deficit was $427 million (see Exhibit 30.7). This overall deficit was calculated on a full-cost basis, including an estimate of terminal control costs. The costing methodology was consistently applied to both MFAs and FDAs, for comparative purposes. This calculation assumes no additional allocation of ATT.

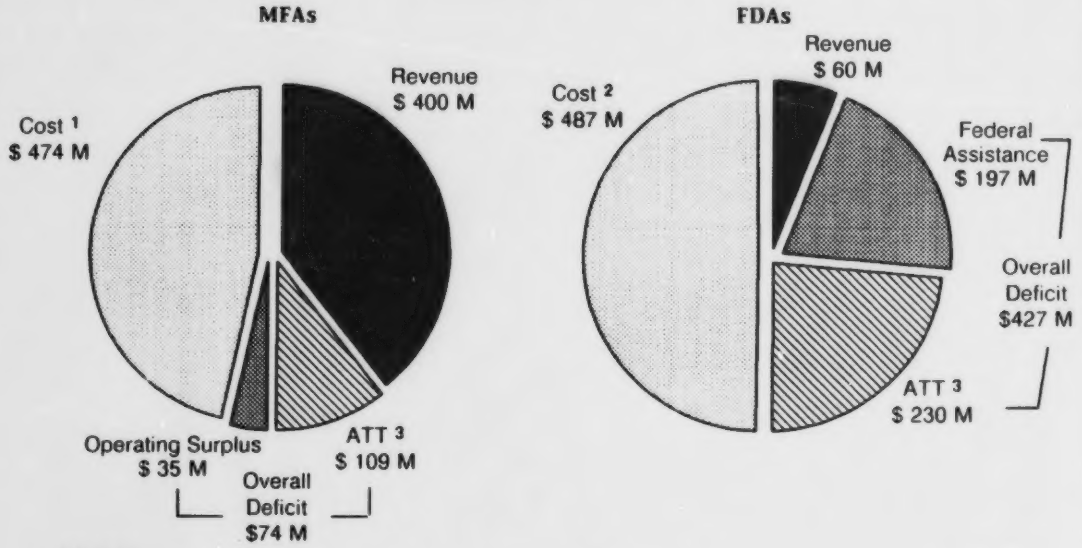
30.35 We also estimated that 88 percent of FDAs' costs for 1988/89 were funded by the ATT and by government appropriations. An analysis of the Department's information on future capital requirements for maintaining and restoring the FDAs' existing assets, which have a replacement value of $5.5 billion, identified a projected shortfall of approximately $200 million in funding these requirements over the next five years, even after a proposed allocation of over $ 1 billion from the ATT. This projection assumes the current rate and cost structure.

30.36 The Department should develop a clear strategy for its role in Federal Dependent Airports, and develop a financial

Exhibit 30.7

FINANCIAL PERFORMANCE

Major Federal Airports and Federal Dependent Airports 1988/89



SOURCE:

1. *Costs include RCMP security costs, air traffic control charges, depreciation and interest on capital*
2. *Costs include air traffic control charges, depreciation and interest on capital*
3. *ATT - Air Transportation Tax*

plan with annual national targets for cost recovery.

Department's response: *The Department intends to define the circumstances and conditions under which federal funding will be provided to FDAs. A financial plan will be established as a part of the business planning process.*

Airports Not Prepared for Today's Deregulated Commercial Environment

Lack of flexibility and tools for financial self-sufficiency

30.37 Given the Department's long history of involvement in commercial operations in airports, there is a need for:

- a rate and fee setting process responsive to market conditions;
- a pricing policy consistent with the Department's stated objectives of implementing a commercially oriented management approach and recovering costs;
- key tools for financial self-sufficiency, such as a commercial cost accounting system, a billing system and a fixed asset accounting system; and
- a financial accountability regime that measures and reports on the financial performance of each major operating component, on a full-cost basis.

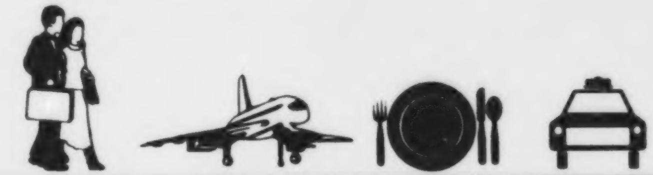
30.38 After years of effort, the Department still has not fully developed many of these elements of financial self-sufficiency.

30.39 Unresponsive rate and fee setting process. Six pieces of legislation cover the legislative and regulatory authority of the Minister of Transport over user fees at airports -- the Aeronautics Act, the Department of Transport Act, the Government Property Traffic Act, the Public Lands Grants Act, the Financial Administration Act and the National Transportation Act. Exhibit 30.8 illustrates the relationship among the related regulations and the revenues received in 1988/89.

30.40 The Department has a network of individual regulations, rather than an overall pricing policy that would allow airport management the flexibility to respond to prevailing market conditions in a timely fashion. Some charges, such as those for concessionaires at airports, are based on market rates, while some are based on cost,

Exhibit 30.8

FEES, RATES AND REGULATIONS RELATED TO PASSENGER SERVICES



Fee and Rate Payers				
Air Transportation Tax	**$109 M** (Excise Tax Act Part II)			
Landing Fees		**$111 M** (Air Services Fees Regulations)		
General Terminal Fees		**$78 M** (Air Services Fees Regulations)		
Service Fees & Miscellaneous		**$9 M** (Air Services Fees Regulations)		
Aviation Fuel Charges		**$18 M**		
Rentals		**$41 M** (Public Lands Leasing and Licensing Regulations) (Air Terminal Building Rental Rate Policy)	**$85 M**	
Ground Transportation Fees				
Taxi Service				**$5 M** (Airport Ground Transportation Fees Regulations) (Government Airport Concessions Operations Regulations)
Parking	**$53 M** (Airport Vehicle Parking Charges Regulations)			
TOTALS	**$162 M**	**$257 M**	**$85 M**	**$5 M**

Source: 1988/89 Airports Revolving Fund Financial Statements for MFAs such as rents for air carriers at terminal buildings.

30.41 We noted numerous cases illustrating the unresponsive nature of the rate and fee setting process in parking, ground transportation and land development. In many cases the Department faces constraints created by red tape, which are impediments to a business orientation. For example, airport managers do not have the authority to adjust parking fees. The parking regulatory framework is arduous and time consuming; it takes at least six months for the Department to effect changes to any regulations, such as parking rate increases at airports.

It takes at least six months for the Department to effect changes to any regulations, such as parking rate increases at airports.

30.42 Airport management across the country indicated that current land-leasing regulations effectively delay and discourage commercial land development, resulting in significant loss of revenue opportunity by the airports. There are two major deterrents to commercial development. First, Treasury Board policy states that the letting of airport land for non-aviation commercial purposes should be handled by a competitive process, but entrepreneurs are reluctant to lose their competitive advantage by disclosing their intent. Second, Orders in Council are required for leases that are:

- not based on the lessee's revenue when
    - the lease is longer than 40 years; or
    - total lease payments for the first five years are greater than $375,000; or
- based partly or wholly on the lessee's revenue when
    - the lease is longer than 10 years, or
    - total payments over the life of the lease are greater than $3 million.

30.43 These approvals take a long time and introduce an element of uncertainty -- conditions perceived by the private sector as investment disincentives.

30.44 For example, a proposal for a gas bar development in Edmonton is expected to take at least six months to work its way through the bureaucratic hierarchy. We were advised that a hotel development at most airports would require up to two years to be approved by Order in Council. This results in revenue losses both through loss of potential business and through delays in deriving land-leasing revenues.

30.45 We recognized these institutional constraints, but in the following case the problem was more a lack of action by the Department. The case illustrates the unresponsiveness of landing fees.

- **National landing fees.** Although deregulation has brought a shift from jet aircraft to smaller turbo-prop commuter aircraft on many routes, the structure of landing fees has not been changed to reflect this new environment, partly due to the Department's policy of gradual change.
- At present, the fee structure levies a higher rate per tonne for heavy jet aircraft than for light commuter aircraft. For example, the impact on revenue of using large jets rather than smaller turbo-props to move an equivalent number of passengers is illustrated by the following tables. This shows the number of landings necessary to land 1,000 passengers using various types of aircraft, and the resulting landing fees that would be generated in each case.

Aircraft Type	# Landings Necessary	Landing Fees
DASH-8 (turbo-prop)	28	$ 740
DC-9 (turbo-jet)	9	$1,290
B-727 (turbo-jet)	7	$1,830

- A thousand passengers travelling in fully loaded B-727s would thus generate over twice the revenue of turbo-props carrying the same number of passengers.

- The changed aircraft mix affects airports in several ways. First, runway and apron activity increases with the greater number of aircraft. Second, revenues decrease as lighter aircraft are used. Third, the existing terminal buildings are not designed for a large number of commuter aircraft, and needs arise for additional infrastructure, as we have noted. Airports have a heavier workload, less revenue and increased capital requirements because of required commuter facilities.

30.46 **Lack of a pricing policy**. In our opinion, an important prerequisite for establishing a pricing policy is for the Department to define what it means by implementing a commercial approach. Does the Department intend to recognize current market conditions in its pricing? What are the Department's current objectives for cost recovery? We had expected to find a pricing policy in line with airports' current commercial environment and consistent with the Department's objectives for cost recovery, and specific plans in place to implement this policy. This was not the case.

30.47 We noted that the Department has focussed on cost recovery since 1967, with the establishment of the National Transportation Act (NTA). The NTA stated that an economical, efficient and adequate transportation system is most likely to be achieved when each mode of transport, as far as is practicable, bears a fair proportion of real costs. The 1978 Cost Recovery Policy currently used by the Department is geared to operate in a regulated environment. The policy is supported by a network of individual regulations and is coupled with the current policies of cost-based fees for air carriers and uniform national fees for landing and terminal use. One serious deficiency of the current policy framework is that financial self-sufficiency has not been defined. Does it mean recovering enough funds to meet replacement and expansionary capital needs of MFAs? The Department faces a major dilemma in this regard. The net book value of the MFA infrastructure approaches $1 billion, while the replacement value of these assets is estimated at $4.5 billion.

In summary, after 23 years the Department has yet to develop an approved policy that sets out all costs that will be borne by users, and to reach agreement with users on payment of these costs.

30.48 During our 1985 audit of CATA, the Department had identified a need to revise the 1978 Cost Recovery Policy. Subsequent to the 1987 changes to the National Transportation Act, the Department initiated a revision to the Cost Recovery Policy and targeted June 1988 for completion of a new policy. In May 1987, a draft discussion paper was distributed for public consultation and comment. A second discussion paper was completed in early 1990, building on the basic principles set out in the May 1987 document. The Department distributed the revised draft for further comment, before seeking a government decision. In summary, after 23 years the Department has yet to develop an approved policy that sets out all costs that will be borne by users, and to reach agreement with users on payment of these costs.

30.49 The Department acknowledges that the failure to update the pricing policy has resulted in foregone opportunities for revenue. For example, we noted that only 14 of the FDAs charge General Terminal Fees. The General Terminal Fees have been in effect for 20 years. The Department estimated that an additional $6 million in annual revenues would have resulted had the General Terminal Fees been applied generally at FDAs, at full rate. We noted that Kelowna Airport, not operated by the Department, began charging the General

Terminal Fee in January 1988 using a municipal by-law. The operating subsidy the Department pays to Kelowna has decreased, from $762,500 in 1986/87 to $11,900 in 1989/90. The Department states that it is planning to gradually phase in the General Terminal Fee at 17 other FDAs, at 25 percent of the full rate.

30.50 We also found other cases that illustrate the difficulty of trying to operate in a commercial manner within the current regulatory framework. This is exemplified by fuel concession fees, a major source of revenue for MFAs.

- **Fuel concession fees**. Licensed fuel suppliers provide aviation fuel to the airlines at MFAs, for which Transport Canada charges a throughput concession fee. The Department has also entered into a separate agreement with Air Canada for the airline to pay a fee for all fuel supplied, regardless of the source. Nationwide the total fees exceed $20 million annually. Air Canada advised the Department in October 1988 that it would no longer pay the fees, either directly to the Department or to the oil companies, even though it was obliged to do so under its lease agreement. A similar action was undertaken by CAIL. A Statement of Claim was filed in May 1989 by 42 airlines, including these two, for a total of $66 million for fees already paid.

- After lengthy negotiations, an agreement was reached with Air Canada and CAIL/Wardair in October 1989. The Department will write down $2.4 million on the Air Canada receivable alone, and has agreed to eliminate the fuel concession fee from March 1991 or upon earlier implementation of the cost recovery policy. According to the Department, additional charges under the proposed policy would compensate for the loss of this fee. The Department could forego revenues of over $20 million annually if the proposed policy is not approved by March 1991, and it has advised us that in that event it would examine other options.

30.51 **Lack of financial tools and financial management capability.** The Airports Revolving Fund (the Fund) is an entity created, in part, for accounting purposes. Site records are maintained on a government accounting basis and once a year are converted to a commercial accounting basis to prepare the annual consolidated financial statements. There is no individual in the Department of Transport with overall responsibility for the Fund. What is necessary to overcome these accounting challenges, to pull the disparate pieces of the Fund together, is strong financial management. This is essential to preparing meaningful financial information that can be used to assess the extent of cost recovery, and to provide a basis for the negotiations currently under way to transfer airports to Local Airport Authorities.

30.52 In our opinion the quality of the essential ingredient -- good financial management -- is weak. This is not a new problem. For over five years we have reported serious deficiencies in financial accounting practices to the Department. We reported on aspects of the problem with financial systems in our 1987 Chapter on Financial Management and Control. The Department has demonstrated a lack of a sense of urgency in addressing these deficiencies in financial management:

- the lack of timely commercial accounting information prepared on a consistent basis, that can be easily aggregated on a national basis;

- an inefficient accounts receivable and billing system to support the collection efforts associated with managing annual revenues of almost half a billion dollars; and

- the absence of adequate information on fixed assets, necessary for safeguarding, and accounting for, the Fund's assets approaching a billion dollars (see Exhibit 30.9).

30.53 The Department has prepared an airports costing summary for the MFAs, which consolidates and categorizes existing cost information and matches costs and revenues for airfield, terminal complex and industrial

Exhibit 30.9

KEY FINANCIAL TOOLS

Department's Initiative	Original Target	Revised Target	Comments
Commercial accounting system at major airports	April 1988	August 1993	Implemented at Winnipeg Airport; implementation at remaining airports incorporated into the Integrated Departmental Financial System
Computerized billing system	December 1987	November 1990	A replacement accounts receivable system is also targeted for June 1991
National fixed asset accounting system	March 1988	August 1994	Part of proposed Integrated Departmental Financial System

The Department has stated that these are essential financial tools that should be in place. As illustrated, the target dates for implementing them keep slipping.

areas. This special study, which was completed for 1987 88 and will be repeated for 1988/89, was intended to provide information for negotiations on the possible transfer of airports to Local Airport Authorities, for public consultation on a new cost recovery policy and for airport management.

30.54 The Department states that it is in the process of negotiating the transfer of airports to Local Airport Authorities. The transfer of airports is complex and is a first-time effort by the Department. Principles for the transfer of airports have been approved by Cabinet, but there are still many options, such as sale versus lease and operating lease versus capital lease. A prerequisite for any options analysis will be the valuation of the Department's airport assets. The methodology and performance of the valuation will be critical elements of negotiations between the Department and Local Airport Authorities. Our concern is that these negotiations should be based on adequate and accurate information.

30.55 Given the Department's objective of a commercially oriented management approach, the lack of timely cost information is significant. We prepared Exhibit 30.7 to illustrate the type of cost information that could be provided.

30.56 To achieve its objective of implementing a commercially oriented management approach, the Department should:

- **recommend to Treasury Board revisions to regulations that would allow airports to operate in a more businesslike manner and would provide line managers with a rate and fee setting process responsive to market conditions;**
- **develop a commercial pricing policy consistent with the stated objective of a commercially oriented management approach;**
- **provide line managers with key tools for the financial self-sufficiency of their operations, such as a commercial cost accounting system, a billing system and a fixed asset accounting system; and**
- **improve the financial management of the Airports Revolving Fund.**

***Department's response:** The Department concurs with the recommendations. The development of an Integrated Departmental Financial System and the implementation of a cost recovery policy, both of which are underway, will address these matters.*

Failure to recover groundside costs

30.57 Failure to optimize parking revenues. Parking is a major source of airport revenue. The following cases illustrate foregone revenue opportunities of up to $11 million annually. Parking revenues for the MFAs amounted to $53 million in 1988 89. The Department has identified significant opportunities to optimize parking revenues, but states that the opportunities were contingent on the availability of funding. We found that parking revenue control equipment at the airports we visited was vulnerable to manipulation and abuse. Using the Department's methodology and data, we estimate that annual revenue losses of up to $4.5 million per year could be prevented. Generally we found that the equipment at MFAs was not adequate for the volume of traffic. For example, in June 1989 the equipment at Terminal 2 at Pearson Airport failed 1,010 times and was out of service for 1,080 hours.

30.58 The Department has been slow to replace parking meters with "multi-stall" (electronic pay station) parking equipment, which local airports have found to be a cost-effective way to increase parking revenues. This type of equipment has generated revenue gains over meter equipment, of more than 20 percent at Winnipeg Airport and from 70 to 100 percent at three airports in Quebec. In addition, it has permitted significant reductions in operating and maintenance costs. Based on this experience, we estimated that at six airports reviewed (Vancouver, Edmonton, Calgary, Pearson, Dorval, and Halifax), revenue gain and operating savings from installing this equipment would range from $1 million to $2 million per year; the payback period on the capital investment normally occurs within the first year of operation.

30.59 Parking facilities have not been constructed to meet demand and as a result potential customers have been lost to off-airport competition. To service these off-airport lots, operators use shuttle buses to bring travellers to the airport. These shuttle buses are charged a small annual fee for access to the airport.

30.60 In addition, a majority of the airports are losing revenue on parking operations because tenant employees often occupy prime revenue-generating parking spaces in public parking structures. We estimated the annual revenue foregone to be up to $5 million. The Department states that it has recognized the problem, and that in the past year tenant parking has been reduced at Pearson Airport, with a corresponding annual increase of $146,000 in revenues. The Department states that a mechanism is now in place to decrease tenant parking as public demand grows.

30.61 Failure to recover passenger processing costs. The present Air Terminal Building Rental Rate Policy was intended to set rental rates that would recover the cost of constructing, operating and maintaining facilities. Our review of the policy application at MFAs noted that:

- the policy and its application did not encourage and facilitate movement toward airport financial self-sufficiency; and

- capital and operating costs were not being fully recovered for the overall facilities, or in the areas being used by the air carriers.

30.62 The existing policy restricts the area to which rental fees apply to within and around the terminal building. This precludes the possibility of recovering revenue from the large amounts of land and groundside services dedicated for support of the building. For example, all the interest on capital costs of the apron and the baggage system, and all operating and maintenance costs on the apron, are excluded. The Department uses General Terminal Fees and other charges, such as loading bridge fees, to recover some of the costs of the terminal complex. However, these costs are not fully recovered.

30.63 As noted previously, the airports costing study reports the various levels of cost recovery achieved relative to the airports' business segments. The business segment that relates to the area covered by the General Terminal Fees and Air Terminal Building Rental Rates is referred to in the study as passenger processing operations. For 1987 88, the latest data available, the study reported the recovery of an estimated $61 million less than full costs for passenger processing operations in the MFAs nationwide. This includes costs for operating and maintenance, depreciation and estimated interest but excludes services provided without charge, such as those of the RCMP.

30.64 Under the existing policy, once the original capital costs of the terminal building have been fully amortized, no further recovery of these original capital costs is possible. In the case of Vancouver Airport, in 1993 when the original facility is fully amortized annual rental rate revenues are expected to decline by 25 percent. The Department has advised us that the proposed cost recovery policy will address this issue.

30.65 **Terminal buildings leases.** In 1985 we recommended that the Department ensure that decisions on capital investments and levels of service take into account users' ability and willingness to pay. The Department responded that this approach would be reflected in the operation of the Revolving Fund.

30.66 However, this is not yet the case. The Department's cost recovery practices in terminals owned and operated in the traditional manner still do not commit airlines to long-term leases. Airlines pay only for costs incurred while they are tenants in a terminal, and stop paying when they choose to move out. We noted that this is in contrast to the long-term commitments signed by the air carriers in Terminal 3. The following cases from Pearson Airport illustrate the pitfalls of current practices.

- **U.S pre-clearance facilities.** The move of CAIL to Terminal 3 in 1991 could leave the Department at risk in recovering the capital costs of the pre-clearance facilities. The construction cost of the temporary U.S. pre-clearance facility was estimated in 1986 at $5.2 million. The portion of the cost attributable to the air carriers, $4.9 million, was to be recovered over a 10-year period. The rental agreements for Terminal 1 provide for cancellation upon relocation of any airline's transborder operations from that terminal. In 1991 the three largest air carriers, whose rents cover 70 percent of the capital costs, will be moving to Terminal 3. The existing rental agreements contain no provision for recovery of outstanding capital costs on early termination.

- **Module Q**. This project was recommended for immediate construction, to relieve congestion in Terminal 1 by the spring of 1989. This would provide temporary relief until Terminal 3 opened. In April 1987, the cost was projected at $25.7 million; it later increased to $40.3 million. In September 1988, Wardair confirmed in writing its verbal offer to be the prime tenant in Module Q. Treasury Board approved the construction contract for this project in October 1988, stipulating that "no construction activity will begin until signed rental rate agreements with the tenants are in place".

- We noted that construction had commenced without signed rental rate agreements. To accommodate Wardair the Airport made modifications to the original plans, estimated to have cost between $900,000 and $2.1 million. In April 1989, Wardair advised the airport that it was withdrawing its proposal to lease Module Q , as a result of the acquisition of the airline by PWA Corporation.

- To date, the airport has not been reimbursed for any of the costs incurred in the modifications. According to the Department, the project will be completed in late 1990, over a year and a half behind schedule and less than six months before Terminal 3 is expected to open.

30.67 **The Department should rigorously apply its existing terminal rental policies to fully achieve its stated cost recovery objectives, and should ensure that**

decisions on capital investments and levels of service are supported by users' commitments to pay for them.

***Department's response**: The Department concurs with the intent of the recommendation, which addresses the need for increased cost recovery and for full consultation with users on the merits of proposed investments and level-of-service decisions.*

New Financing Arrangements Will Require Development of New Financial Expertise

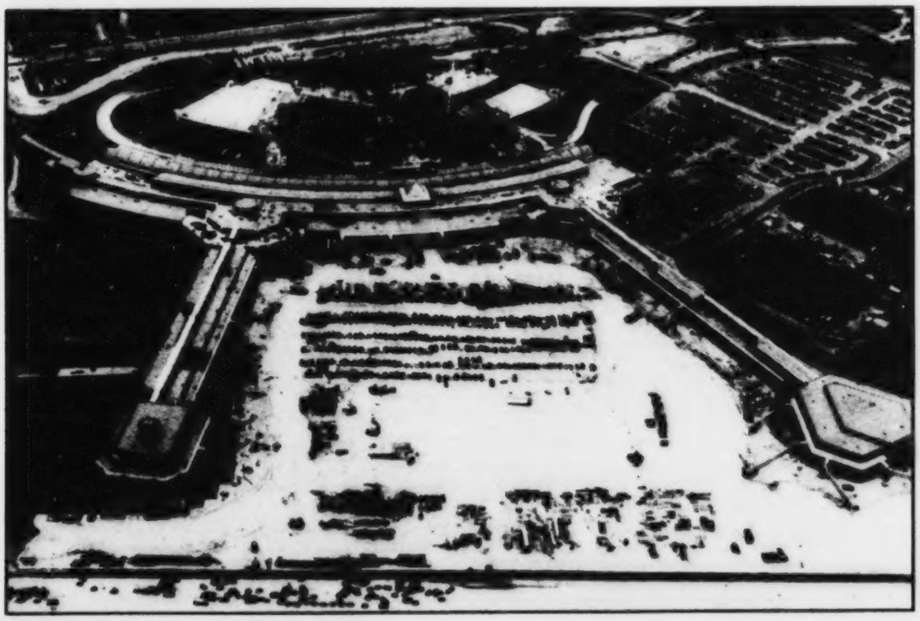
Terminal 3 - concerns about safeguards to protect the interests of the Crown

30.68 The Terminal 3 project at Pearson Airport is unique, with little precedent in the Department of Transport. Any such new endeavour presents opportunities, risks and challenges. In our opinion, key ingredients for success are strong financial expertise and analytical skills. The Department acknowledges the likely need for greater use of private sector financing in the future. Our review of this project indicated the need for the Department to conduct a post-project analysis to identify "lessons learned", which could be incorporated into an improved process for handling such private sector developments. In our opinion, the Department should, at the least, focus its review on:

- improving methods for analysing options, such as Crown-construct, as compared with using private developers; and
- improving safeguards to protect the interests of the Crown where they could be in potential conflict with the private developer's objectives.

30.69 Improving methods for analysing options. A net present-value analysis was conducted for Terminal 3, comparing the developer's proposal to the Crown-construct option. The analysis compared discounted cash flows under each option over a forty-year period. We have noted the failure to recover costs through air terminal rental rates and General Terminal Fees. Obviously, the current anticipated level of cost recovery will affect any options analysis by reducing the financial attractiveness of the Crown-construct option.

30.70 A positive net present value was identified as the private development option's



Terminal 3

Need to assess lessons learned (see paragraph 30.68).

advantage over the Crown-construct option. The proposed positive net present value was less than one percent of the total airport terminal revenues projected by the Department under the Crown-construct option. This means that the private development option would be relatively sensitive to changes in the underlying assumptions used.

30.71 The assumptions used by the Department in its analysis need to be reviewed. The Department could not provide us with a rationale for using essentially the same projected space rental revenue for Terminal 1 and Terminal 3 under a Crown-construct option for 1990/91. The purpose of such rentals is to recover the terminal's capital and operating costs through user fees. Given the higher capital costs for Terminal 3, in contrast to the depreciated capital costs for Terminal 1, the Department needs to challenge the logic of using the same user fees for Terminal 3 as those of Terminal 1.

30.72 The Department also needs to review the assumptions on which it bases the treatment of overhead. In analysing options for Terminal 3 the Department included an overhead charge of 25 percent of direct operating charges. Because the Department's direct operating charges in Terminal 3 would be much lower under the private developer option, the use of an overhead rate based on direct operating charges obviously favours that option. The Department's analysis assumes that far less headquarters support would be required with a private developer. In our opinion this approach is unrealistic, given the need to monitor and regulate a developer. The assumption biased the analysis in favour of the private sector option. Using a more realistic overhead base in the calculation would have more than eliminated the projected benefit to the Crown for the entire project.

30.73 Improving safeguards to protect the interests of the Crown. One of the key challenges at Pearson Airport, given the current uncertainty about runway development, is to balance passenger traffic among the three competing terminals. The more carriers and passenger traffic that shift to Terminal 3, the greater the likely reduction in revenues to the Department of Transport, which will still own and operate the other two terminals.

30.74 There is a need for the agreements with Airport Development Corporation (ADC) to contain financial safeguards, to compensate for the loss of passengers and air carriers shifted from terminals owned and operated by the Department to those operated by the private developer. There is a need for the Department to analyse the financial implications of any major changes in the scope of the original development concept. This would involve monitoring the changes, updating the original net present-value calculation to ensure that the intended benefits still applied and advising senior management in the Department and Treasury Board about the likely financial implications for funding, and for the financial self-sufficiency of the MFAs.

30.75 The original calculation of net present value assumed that approximately 5 million passengers would be shifted from other terminals (principally Terminal 1) to Terminal 3, resulting in a corresponding shift in revenue of approximately $25 million per year. A number of significant changes have occurred since the analysis was prepared -- the consolidation of CAIL operations to include Wardair in Terminal 3, the related proposed construction of a satellite terminal for Terminal 3 and the transfer to Terminal 3 of three airlines in addition to those included in the developer's proposal. The Department states that the shift by Wardair was unforeseen.

30.76 The total traffic of these Terminal 3-affiliated airlines for 1989 was approximately 7.4 million passengers, or 2.4 million more than forecast. Obviously, this shift in traffic will have major implications for the future revenues of terminals still owned and operated by the Department.

30.77 Satellite terminal. In May 1990, the Department obtained Treasury Board approval for a new $54.1 million, two-level satellite terminal, on 10 hectares of land presently leased to CAIL. The satellite terminal is expected to be completed approximately six months after the main complex.

30.78 According to the Department, the need for the satellite terminal was contingent on future growth in airport traffic and on CAIL's share of that traffic. The Department stated that the transfer of Wardair to Terminal 3 would result in a net $7 million annual revenue loss to the Department but that this would decrease over time as Terminal 1 traffic increased. The submission also noted that some components of Terminal 3 would reach capacity by 1995 even with the satellite terminal, should it be approved. However, we noted that the satellite facility likely will not be needed to meet the demands of existing passenger traffic on opening, since the original design capacity of Terminal 3 was 9.8 million passengers. The satellite facility will represent a potential to shift even more traffic away from the other two terminals. The Department needs to review the adequacy of its procedures for analysing the financial and other implications of major changes to project concepts.

30.79 Based on revenue figures from the Department, we have estimated that the financial impact of the changes in the original concept will be an incremental shift of approximately $11 million in annual revenues, beyond the $25 million originally projected.

30.80 The Department was unable to provide us with an analysis of the financial implications of these proposed changes to the original concept. In addition, there was no update of the original calculation of net present value to see whether, for example, the long-term financial implications of a new satellite terminal might negate the original projected benefits of the private developer option. Nor did we find a financial plan showing how self-sufficiency would be achieved for the MFAs in the light of the estimated $36 million per year in revenue that the Department would lose to Terminal 3.

30.81 We noted that a key control in safeguarding the public interest is the requirement for the airport general manager to approve transfers of air carriers between terminals. The Department could not provide us with criteria it uses in granting, or refusing, air carriers entry to Terminal 3. There is an inherent risk that this approach will place enormous pressure on the airport general manager and put him in an untenable position. Given the operational and financial implications of such transfers, the Department needs to assess its approach, to ensure that adequate safeguards are incorporated into future deals.

The Department needs to assess its approach, to ensure that adequate safeguards are incorporated into future deals.

30.82 The Department also needs to assess the adequacy of its approach to resolving potential conflicts between its own and the developer's apparent objectives for land development and compatible ground transportation systems. The developer of Terminal 3 is constructing a hotel and parking lot which could conflict with the airport's plans for its centre core, and is also planning future office buildings and a second hotel. In addition, the developer has proposed to operate a separate taxi and limousine licensing system, which would conflict with existing federal and provincial legislation as well as with the government's request for proposals. Holders of existing permits and the City of Mississauga have opposed such a system.

30.83 We note that the Department is now developing a decision-making model for using private sector financing.

30.84 **The Department should conduct a post-project analysis to identify lessons learned from the Terminal 3 project. As a minimum, this analysis should address methods for analysing options and safeguards to protect the interests of the Crown. It should form the basis of an**

improved methodology for handling such private sector developments in future.

Department's response: *In addition to the considerable analysis performed by the Department before and during the conduct of the project, it is the Department's intention to conduct such a post-project analysis.*

Airports at a crossroads

30.85 In 1987 the Minister of Transport announced a new federal airports policy, under which Local Airport Authority groups could assume direct management of federal airports. In fact, the Department has been considering the concept of devolution, or transfer of airports, for over a decade. A task force on airport management observed in 1979 that the industry had matured to such an extent that direct federal involvement in the operation of major airports was no longer required. The report recommended that each major airport be placed under a Local Airport Authority.

30.86 The Department states that it is now at a crossroads. It reports that letters of intent have been signed for the transfer of airports at Edmonton, Calgary, Vancouver and Montreal (Dorval and Mirabel). Representations have

Exhibit 30.10

MAJOR DEPARTMENTAL INITIATIVES

Areas for Improvement	Initiative/Description	Target	
		Original	Revised
• Need to re-examine the Department's role in airports, develop criteria for federal financial involvement and develop implementation plan for the rationalization of federal financial involvement	• Study on the Federal Role in Airports	• Target to be established	
• Need for a clear management strategy and plan for financing future capital needs	• Develop policy on general aviation	• Under development (1985)	• Target to be established
	• Develop a Capital Funding Plan	• Target to be established	
	• FDAs: Identify costs associated with non-transportation objectives, establish financial targets for cost recovery, policy on financial assistance to municipal airports	• Under development (1985)	• Elements to be implemented in 1991
• Need for a business orientation	• Develop business plan for Airports Revolving Fund	• April 1985	• Part of the business planning process
	• Develop cost recovery policy	• Under development (1985)	• 1991

been received from these four Local Airport Authorities, but the Department has made no decisions nor set a timetable for transfer of any of the airports.

30.87 The Department may be on the brink of a new initiative, one that could have as many future implications as had the decision to deregulate. The Department will have to manage new risks, such as evaluating the potential financial viability of Local Airport Authorities. Our concern is whether history will repeat itself and the Department will embark on another major initiative, such as the transfer of airports, for which it is not ready and for which it does not have the requisite tools.

30.88 The Department states that it has recognized its lack of experience in financial analysis of the types of deals implicit in Local Airport Authority leasing. The Department states that it has not attempted to develop the skills from within but has engaged private sector consultants.

Major Departmental Initiatives

30.89 The Department reports that it has a number of major new initiatives under way which address many of the concerns expressed in this chapter. We have already mentioned some of these; the most significant are summarized in Exhibit 30.10.

30.90 We have also included relevant recommendations from our 1985 audit, which we have followed up. Because of the changes arising from deregulation, we have not done specific follow-up on our previous findings on the efficiency of individual airports.

31

Organization and Programs of the Office of the Auditor General

Organization and Programs of the Office of the Auditor General

Main Points

31.1 This chapter describes the organization and activities of the Office, particularly some of the work the Office conducts that is not readily apparent (paragraph 31.11).

31.2 During 1989/90 the Office was appointed auditor of major new Crown corporations (31.13).

31.3 Due to financial and other constraints, the audit cycle of value-for-money audits in departments and agencies is slipping (31.24).

31.4 Consistent with a renewed emphasis on investment in people, the Office has placed a high priority on training and development (31.40).

31.5 The technological sophistication of audited organizations will have increasing impact on the Office (31.45).

31.6 The Office's work in the international arena is showing results (31.53).

31.7 A symposium on communication, hosted by the Office, underlined the challenge for better communication with legislators (31.62).

Table of Contents

	Paragraph
Introduction	31.8
Legislative Auditing	31.10
Other Activities	31.14
Organization	31.17
Audit Operations Branch	31.20
Professional and Administrative Services Branch	31.21
Auditor General Group	31.22
The Audit Cycle	31.23
The Cost of Auditing	31.26
Program Evaluation and Internal Audit	31.30
Methodology Development	31.34
Professional Development Activities	31.40
Technology	31.44
Official Languages	31.50
The International Scene	31.52
International Audit Office Assistance Program	31.53
International Federation of Accountants (IFAC)	31.55
INTOSAI Development Initiative (IDI)	31.58
Symposium on Communicating Audit Information in the Nineties (SCAN)	31.62
Costs of Crown Corporations Work	31.67
Financial Resources	31.71

Exhibits

31.1 Organization of the Office of the Auditor General
31.2 Cumulative Percentage Increase from 1979/80 to 1988/89
31.3 Costs of Preparing Annual Audit Reports for Fiscal Years Ending on or Before 31 March 1990
31.4 Cost of Special Examinations Completed in 1989/90
31.5 Office of the Auditor General of Canada Appropriations and Expenditures

Organization and Programs of the Office of the Auditor General

Introduction

31.8 The legislative mandate for the activities of the Office comes from the Auditor General Act and the Financial Administration Act (FAA). Evolving from this mandate is a mission statement describing how the Office serves accountability through audit.

Mission Statement: The Office of the Auditor General of Canada serves the House of Commons by conducting independent audits and examinations. We encourage accountability and improvements in government operations.

31.9 Section 7.1 of the Auditor General Act requires that the Auditor General "shall report annually to the House of Commons on the work of his Office". The preceding chapters of this annual Report describe the results of audit work completed by the Office during the past year. Other work by and within the Office is the subject of this chapter.

Legislative Auditing

31.10 The two most visible results of the Office's work are the annual Report to the House of Commons, and the Auditor General's annual opinion on the financial statements of the Government of Canada.

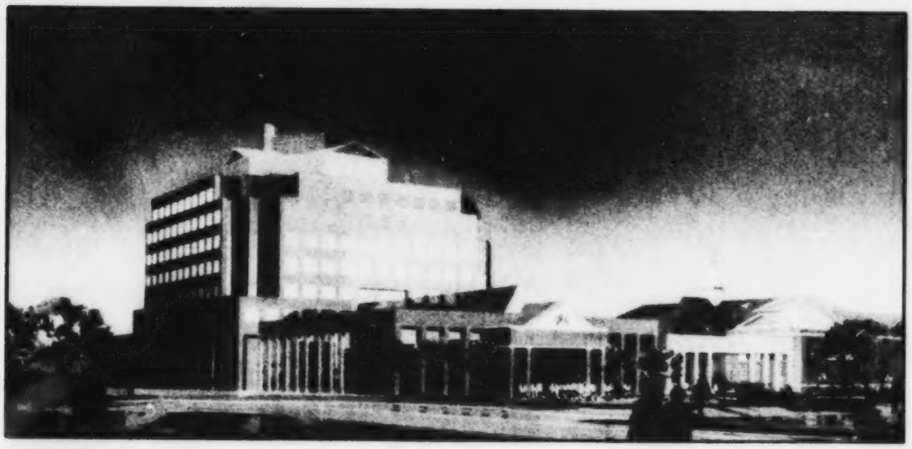
31.11 Less apparent is the substantial effort invested in other statutory responsibilities. This includes traditional audit work supporting opinions on the financial statements of over 100 Crown corporations and government agencies. Moreover, at least once every five years the Office must conduct a special examination in each Crown corporation of which it is the appointed auditor.

To the outside observer a substantial amount of the Office's work is not readily apparent.

31.12 The Office conducts annual attest audits and cyclical value-for-money audits for the governments of the Yukon and Northwest Territories. It reports the findings directly to the respective legislative assemblies. Beyond Canada, the Auditor General is the auditor of bodies such as the International Civil Aviation Organization.

31.13 The Auditor General was also recently appointed auditor or joint auditor of the following entities:

- The International Atomic Energy Agency (United Nations)
- Canada Mortgage and Housing Corporation
- Enterprise Cape Breton Corporation
- Federal Business Development Bank
- Harbourfront Corporation
- Marine Atlantic Inc.
- VIA Rail Inc.



Canada Mortgage and Housing, with assets of more than $9 billion, is now audited by the Office jointly with a private firm (see paragraph 31.13).

CMHC Headquarters

- National Tripartite Price Stabilization Plans (Department of Agriculture)

Other Activities

31.14 Section 11 of the Auditor General Act provides authority for the Office to carry out other activities. These are in addition to those explicitly specified in the Auditor General Act and the FAA. If, in his opinion, it does not interfere with his primary responsibilities, the Auditor General may inquire into and report on other matters at the request of the Governor in Council.

31.15 Following a review of its work, the Office concluded that the authority for a number of its long-standing activities should be formalized. This would be done by Section 11 requests from the Governor in Council. Subsequent discussions with government officials led to a number of such requests related to the following entities:

- CBC Pension Board of Trustees and its subsidiaries
- CBC Newsworld channel and Employee Assistance Program
- Royal Canadian Navy Benevolent Fund
- Royal Canadian Air Force Benevolent Fund
- Canadian Army Welfare Fund
- Canadian Forces Personnel Assistance Fund
- National Tripartite Stabilization Plans

31.16 Other Section 11 requests are now in process. When they become operative they will be published in future annual Reports.

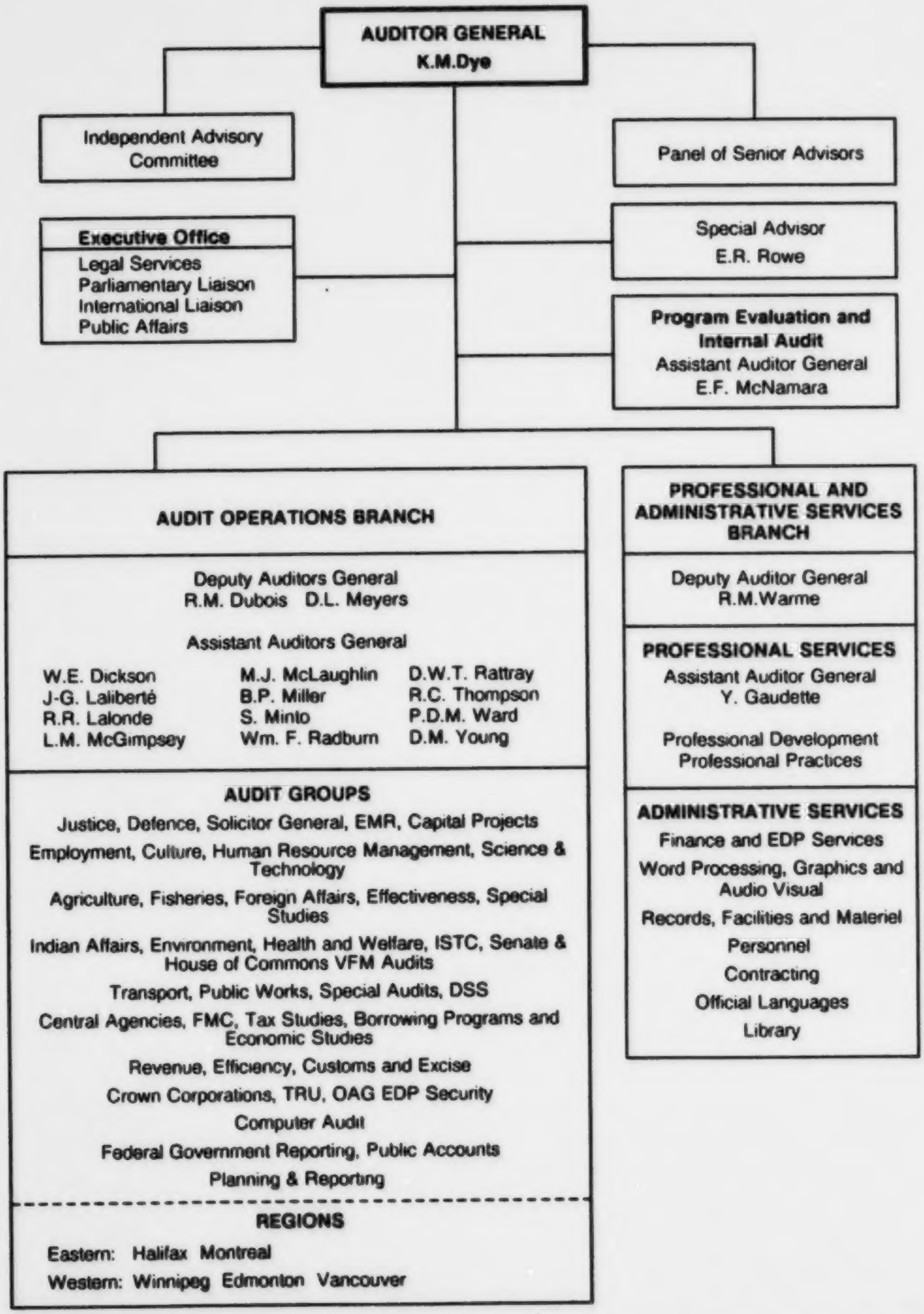
Organization

31.17 The first Report of Auditor General Kenneth Dye to the House of Commons was in 1981. It showed an organization comprising seven Deputy Auditors General and six Branches -- an organizational structure that was then serving the Office well. At the vanguard of a new approach to auditing in the public sector - value-for-money auditing - the Office had new methodologies to develop. It had new auditing standards to establish. It had the challenge of applying newly developing technology. Moreover, the Office was beginning a concentrated program to upgrade the skills of its staff. At the same time it was recruiting dynamic people with new ideas to meet the challenge of the eighties.

31.18 During the past decade the Office has evolved, undergoing a number of reorganizations. Although there was an overall growth in staff from 551 to 619 over that period,

Exhibit 31.1

ORGANIZATION OF THE OFFICE OF THE AUDITOR GENERAL
APRIL 1990



AUDITOR GENERAL
K.M.Dye

Independent Advisory Committee

Panel of Senior Advisors

Executive Office
- Legal Services
- Parliamentary Liaison
- International Liaison
- Public Affairs

Special Advisor
E.R. Rowe

Program Evaluation and Internal Audit
Assistant Auditor General
E.F. McNamara

AUDIT OPERATIONS BRANCH

Deputy Auditors General
R.M. Dubois D.L. Meyers

Assistant Auditors General

W.E. Dickson
J-G. Laliberté
R.R. Lalonde
L.M. McGimpsey
M.J. McLaughlin
B.P. Miller
S. Minto
Wm. F. Radburn
D.W.T. Rattray
R.C. Thompson
P.D.M. Ward
D.M. Young

AUDIT GROUPS
- Justice, Defence, Solicitor General, EMR, Capital Projects
- Employment, Culture, Human Resource Management, Science & Technology
- Agriculture, Fisheries, Foreign Affairs, Effectiveness, Special Studies
- Indian Affairs, Environment, Health and Welfare, ISTC, Senate & House of Commons VFM Audits
- Transport, Public Works, Special Audits, DSS
- Central Agencies, FMC, Tax Studies, Borrowing Programs and Economic Studies
- Revenue, Efficiency, Customs and Excise
- Crown Corporations, TRU, OAG EDP Security
- Computer Audit
- Federal Government Reporting, Public Accounts
- Planning & Reporting

REGIONS
Eastern: Halifax Montreal
Western: Winnipeg Edmonton Vancouver

PROFESSIONAL AND ADMINISTRATIVE SERVICES BRANCH

Deputy Auditor General
R.M.Warme

PROFESSIONAL SERVICES
Assistant Auditor General
Y. Gaudette

Professional Development
Professional Practices

ADMINISTRATIVE SERVICES
- Finance and EDP Services
- Word Processing, Graphics and Audio Visual
- Records, Facilities and Materiel
- Personnel
- Contracting
- Official Languages
- Library

the Office consolidated operations under three Deputy Auditors General in two Branches.

In ten years the OAG has consolidated from six to two Branches.

31.19 Exhibit 31.1 provides an overview of the Office's present organization effective 1 November 1989.

Audit Operations Branch

31.20 Seventy-two percent of the Office's resources are assigned to the Audit Operations Branch. This Branch performs or oversees all audit work carried out by the Office. Its responsibilities include attest audit work in support of the Auditor General's opinion on the financial statements of the Government of Canada. It also provides audit opinions on the statements of over 100 Crown corporations and government agencies. Audit Operations conducts comprehensive audits of government organizations, and special examinations in Crown corporations. The largest concentration of auditors is in the National Capital Region. Staff also work in regional offices in Vancouver, Edmonton, Winnipeg, Montreal and Halifax.

Professional and Administrative Services Branch

31.21 Audit teams in the field rely on support from the Professional and Administrative Services Branch. This Branch provides not only the standard support services related to finance, personnel, official languages and facilities and materiel management activities, but also technical and professional support. The Branch is responsible for professional development and training of staff. It co-ordinates methodology development and professional practices in auditing. It provides word processing and library services. Without these elements the auditors in the field could not effectively and efficiently do their jobs. The Branch receives about 24 percent of the Office's funds.

Auditor General Group

31.22 Reporting directly to the Auditor General are certain corporate functions. These include Program Evaluation and Internal Audit, Legal Services, Parliamentary Liaison, International Liaison and Public Affairs. These activities use about four percent of the Office's resources.

The Audit Cycle

31.23 In the past ten years, the Auditor General has tabled 165 chapters on value-for-money audits in his annual Reports to the House of Commons. This reflects tremendous effort by a dedicated professional staff.

31.24 His predecessor envisioned reporting on all, or almost all, government programs at least once in the life of a Parliament -- about every five years. We now know that, given the size and complexity of government, this would be possible only if funds for the Office were increased by about fifty percent. In addition, experienced talent would have to be readily available to do the work. Neither is likely.

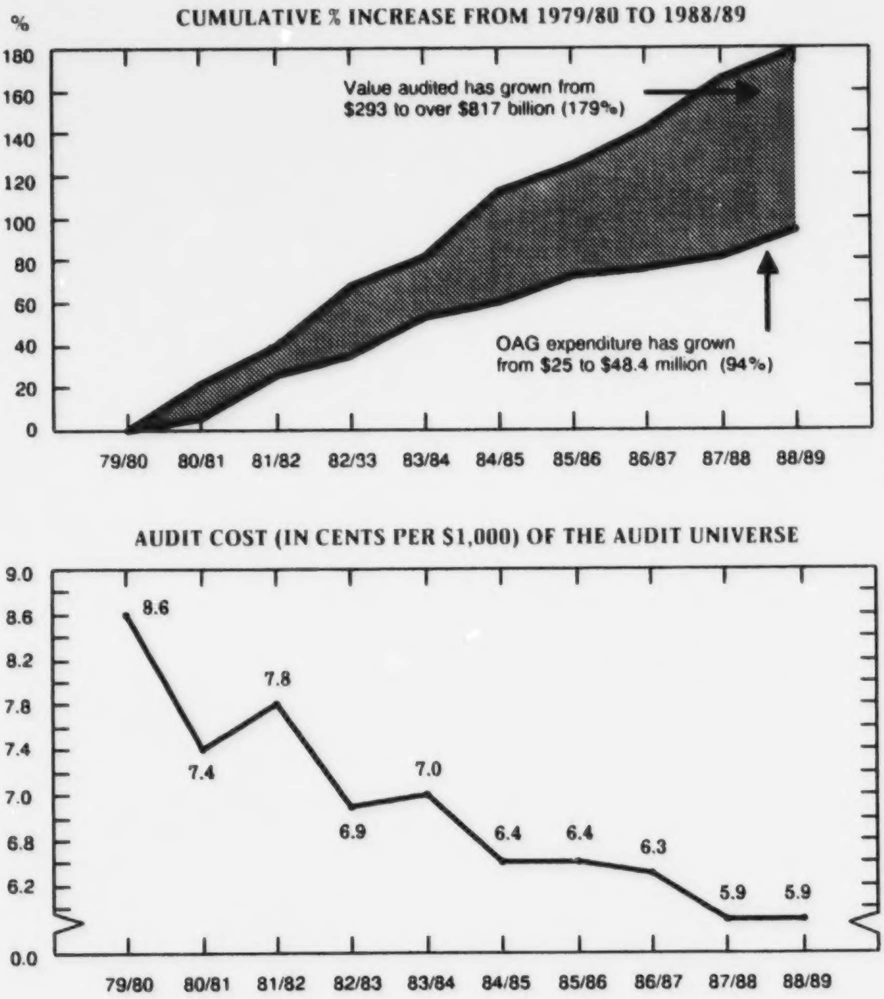
The optimum cycle of value-for-money audits is now in jeopardy.

31.25 Instead, based on a risk assessment, the Office has developed an audit cycle appropriate to each organization it audits. This cycle may be from five years to ten years. For many organizations, the cycle has slipped from the optimum in the past two years.

The Cost of Auditing

31.26 Always in the foreground is the question of how much it costs to audit.

Exhibit 31.2



CUMULATIVE % INCREASE FROM 1979/80 TO 1988/89

Value audited has grown from $293 to over $817 billion (179%)

OAG expenditure has grown from $25 to $48.4 million (94%)

AUDIT COST (IN CENTS PER $1,000) OF THE AUDIT UNIVERSE

31.27 The Office is probably unique among government organizations in the public reporting of its costs. Included in the Office's Part III of the Estimates of Canada are the costs of all its audit work. These costs are "fully loaded", in that they include not only total expenditures from the Office's appropriation, but also include the cost of services provided to the Office by other government organizations -- accommodation, for example.

31.28 But the costs of individual audits do not tell the entire story. The Office's audit universe grew significantly over the past ten years. Information from the Public Accounts of Canada, taken from the most recent available ten-year period and shown graphically in Exhibit 31.2 illustrates this trend.

31.29 The Office has been successful in keeping auditing expenditures well below the rate of growth in its audit universe.

Program Evaluation and Internal Audit

31.30 Self-assessment and the willingness to innovate are indicators of a well-performing organization. The Program Evaluation and Internal Audit Group of the Office is a catalyst for these indicators. The Group evaluates operations and management practices in the Office and recommends needed innovations or improvements.

Self-assessment improves the health of an organization.

31.31 Areas evaluated during 1989/90 include:

- the use of Audit Advisory Committees. These committees are part of the quality assurance program for audits. The types of expertise used for Audit Advisory Committees are indicated in Appendix E. The evaluation judged the committees to be working well.
- the style and format of the annual Report, with a view to improving its readability. This annual Report reflects recommendations made in part by the Group.
- the effectiveness of the Office Library and the Parliamentary Liaison Group in supporting the work of the Audit Operations Branch. The Branch rated both the professionalism and the level of service as high.
- the quality of project management in carrying out value-for-money audits. Recommendations concerning budgetary control and monitoring will be implemented when the new MIS-2000 system is operational (see paragraph 31.47).

31.32 In addition to these evaluations the Group followed up on recommendations of previous evaluations and internal audits.

31.33 The Group was also actively involved in the Office Stress Management Program. It co-ordinates stress management training for all employees wishing such assistance.

Methodology Development

31.34 Methodology development refers to the Office's process for researching, developing and issuing formal guidance to its staff about professional work.

31.35 The Office develops such guidance in consultation with experts and general practitioners both in and from outside the Office. The Office takes into account the research, development and standard-setting activities of professional bodies. To help ensure the acceptance of its criteria, the Office also seeks input from public sector managers.

31.36 The Office's Methodology Development Committee, which co-ordinates research and development work, is chaired by the Auditor General. The Professional Practices Group also supports the Committee.

Research and development are crucial to the success of the Office.

31.37 Substantial progress was made in 1989/90 on research and development activities. Some highlights include:

- approval of a revised and consolidated Comprehensive Audit Manual;
- publication of a guide on the audit of financial statements of Crown corporations and other entities;

Intensive training programs prepare staff for audit assignments (see paragraphs 31.40 to 31.43).

- analysis of opportunities for reducing the cost of attest audits and improving their effectiveness and publication of related guidance to staff;
- implementation of a practice-exchange program encouraging practitioners to share lessons learned from their experiences; and
- an interim evaluation of the effects of a key component of the electronic briefcase (AUDITPRO) on audit practice (see also paragraph 31.46).

31.38 Progress is continuing on the development and/or update of the following audit guides :

- Auditing Human Resource Management;
- The Authority Dimension of Comprehensive Auditing;
- Follow-up of Public Accounts Committee Recommendations on Previous Audit Work;
- Scoping Value-for-Money Audits;
- Auditing Regulatory Programs; and
- Fraud Detection and Investigation.

31.39 As well as reviewing projects directly undertaken by the Office, the Methodology Development Committee co-ordinates the Office's input to research plans of the Canadian Comprehensive Auditing Foundation. During 1989/90 the Office actively participated in a Foundation research project on reporting the results of value-for-money audits.

Professional Development Activities

31.40 Professional development activities are essential to maintaining the professional competence of an audit office, and to ensuring a constant flow of qualified staff and state-of-the-art methodology.

31.41 During 1989/90 the Office's Professional Development Group:

- designed and developed new courses, including a five-day course on the Audit of the Public Accounts of Canada.

- presented 90 different courses internally in 213 offerings to 2,070 participants.

- funded 580 days of external training.

- provided over 1,000 days of professional conference attendance.

31.42 All of the above represent more than 5,000 days of professional development activities. This amounted to 8.4 days per staff member.

31.43 It is the Office's position that a professional organization should make a substantial, albeit judicious, investment in people. Accordingly, the Office has moved some funds from audits to ensure that training programs are not at risk. This will affect the cycles of value-for-money audits mentioned in paragraph 31.25.

Technology

31.44 The Office's future rests with its people -- but the influence of technology is pervasive.

> *The degree of technology in audited organizations requires significant expenditures on technology by the OAG.*

31.45 Departments, agencies and Crown corporations audited by the Office are becoming technology-intensive. People joining the Office are, in most cases, arriving with some measure of computer literacy. The Office must strive to provide these people and its present staff with the technological tools they need.

31.46 In the past ten years the technological environment of the Office has changed dramatically with the development of:

- IDEA-Interactive Data Extraction and Analysis -- a software package which allows an auditor to enter a client's data into a microcomputer and manipulate it with ease and flexibility.

- AUDITPRO -- a software package which helps convert audit working papers into electronic form. It links, indexes and organizes audit documents using common commercial software packages.

- the OAG audit database on CD-ROM which will contain public sector audit information from a number of countries, including the United States, Great Britain and Australia.

31.47 In early 1991 the Office also expects to bring a new management information system on-line -- the MIS-2000, started in the fall of 1988. This will replace the present system, used since 1982. The MIS-2000 will meet the Office's needs into the 21st century.

31.48 Each year since 1981/82 the Office has spent an average of $1 million on technology development. Every staff member with the need has, or has access to, a microcomputer. The Office must continue indefinitely to make a substantial investment in technology development. Otherwise it risks losing the state-of-the-art advantage its work now enjoys. Indeed, Canada is recognized worldwide as a leader in legislative auditing, and in applying technology to auditing.

31.49 This technological advantage, coupled with the calibre of people the Office has attracted over the past decade, provides a solid base for the future.

Official Languages

31.50 The Office strives to meet its commitment to maintain a sufficient level of bilingual resources in day-to-day operations. This is required when communicating with the general public. It is also required in conducting audits and providing employees with the opportunity to work in the language of their choice.

31.51 In responding to the latest Official Languages Status Report, the Treasury Board Secretariat noted that the Office was "meeting its obligations with respect to service to the public in a most satisfactory manner, in addition to exercising an effective program management".

The International Scene

31.52 Members of the Office take pride in their contribution over the past ten years to international assistance programs, and in the transfer of knowledge to less developed countries.

International Audit Office Assistance Program

31.53 The Office is particularly proud of the success of the International Audit Office Assistance Program, funded by the Canadian International Development Agency through a non-government organization -- the Canadian Comprehensive Auditing Foundation. The program provides fellowships to senior legislative auditors from developing countries. It gives them an opportunity to spend one year immersed in a Canadian environment. Here they become exposed to advanced techniques in public sector auditing. In most cases the Fellows spend their year working with this Office.

31.54 This year marks the tenth anniversary of the program; so far 34 countries have participated, sending more than 80 Fellows to Ottawa.

International Federation of Accountants (IFAC)

31.55 There is a growing awareness worldwide of the need for proper accounting and auditing in the public sector. Four years ago IFAC created a new Public Sector Committee with the Auditor General of Canada as its first chairman.

31.56 Currently the Committee comprises senior public sector officials from Australia, France, the Netherlands, Great Britain, Zambia, Indonesia, Canada and the United States.

The Public Sector Committee of IFAC addresses worldwide harmonization in auditing and accounting standards for the public sector.

31.57 The goal of the Committee is to improve and harmonize audit practices and accounting standards; to this end, it has published guidelines, monographs and a survey questionnaire. The publications deal with such areas as the preparation and audit of financial statements of government-owned "business enterprises". They also deal with the objectives of government financial statements and the range of information that public sector financial statements might convey.

INTOSAI Development Initiative (IDI)

31.58 The IDI is a training program of the International Organization of Supreme Audit Institutions (INTOSAI). Since its establishment in April 1986, the Secretariat has been attached to the Office of the Auditor General of Canada.

31.59 As of December 1989 IDI had been involved in training activities in all INTOSAI regions. Twenty-five seminars and workshops, for 490 participants from 105 Supreme Audit Institutions, accounted for 157 seminar/workshop days. Various Supreme Audit Institutions contributed 43 resource persons to this effort.

31.60 The IDI has also developed an information exchange program. Its main element is the International Directory of Information for Audit Training. Distributed in five languages to 150 member institutions, it contains training models and 90 course outlines. These were contributed by 17 Supreme Audit Institutions.

U.S. Assistant Comptroller General Ira Goldstein "communicates" with Frans Kordes, president of the Netherland's Algemene Rekenkamer (the Office of the Auditor General's counterpart), at a SCAN session (see paragraphs 31.62 to 31.66).

31.61 At the XIII Triennial Congress of INTOSAI, held in Berlin in June 1989, IDI reported on its first three years. A further three-year program was approved by the membership.

Symposium on Communicating Audit Information in the Nineties (SCAN)

31.62 Carrying out the Office's program implies more than auditing. Until the Office reports audit findings, an audit is not complete. In reporting those findings, how do we as legislative auditors know whether we are getting across the right message? How do we know whether the message is getting across right?

The Office must compete for MPs' attention.

31.63 These questions were the basis for a "Symposium on Communicating Audit information in the Nineties" hosted by the Office in May 1990. This three-day event attracted a broad spectrum of participants from North America and abroad. Attending were experienced legislative performance auditors, legislators, representatives of the media, communication consultants and public sector auditees.

31.64 If diversity of thought and ideas was an indication, the symposium was an outstanding success. Participants described their ways of getting out the message. They ranged from desk-top publishing to videos, from shorter and simpler reports to more frequent reporting by auditors, from speaking tours to the use of "media gimmicks".

31.65 The symposium provided food for thought on how legislative auditors could do a better job of communicating their message. It addressed means of more effectively competing to get their paper to the top of the enormous pile of information on a legislator's desk.

31.66 A report on deliberations at the symposium is being prepared. Some of the key contributors have served as an informal advisory committee. The report will be of special interest to the legislative auditing community. It is designed as a collection of

Exhibit 31.3

COSTS OF PREPARING ANNUAL AUDIT REPORTS FOR FISCAL YEARS ENDING ON OR BEFORE 31 MARCH 1990

Crown Corporation	Fiscal Year Ended	Cost Incurrred
Atlantic Pilotage Authority	31.12.89	$ 36,590
Atomic Energy of Canada Limited	31.03.90	282,860
Canada Deposit Insurance Corporation	31.12.89	234,780
Canada Development Investment Corporation (Joint Auditor)	31.12.89	25,420
Canada Harbour Place Corporation	31.03.90	36,800
Canada Lands Company Limited	31.03.90	10,400
Canada Lands Company (Le Vieux-Port de Montréal) Limited	31.03.90	71,600
Canada Lands Company (Mirabel) Limited	31.03.90	42,440
Canada Lands Company (Vieux-Port de Québec) Inc.	31.03.90	9,700
Canada Mortgage and Housing Corporation (Joint Auditor)	31.12.89	274,620
Canada Museums Construction Corporation Inc.	31.03.90	73,390
Canada Post Corporation (Joint Auditor)	31.03.90	305,900
Canadian Commercial Corporation	31.03.90	86,680
Canadian Dairy Commission	31.07.89	143,100
Canadian Livestock Feed Board	31.03.90	61,850
Canadian National (West Indies) Steamships Limited	31.12.89	6,360
Canadian Patents and Development Limited	31.03.90	43,970
Canadian Saltfish Corporation	31.03.90	133,320
Cape Breton Development Corporation	31.03.89	331,440
Defence Construction (1951) Limited	31.03.90	55,190
Enterprise Cape Breton Corporation	31.03.89	52,690
Export Development Corporation	31.12.89	483,240
Farm Credit Corporation	31.03.90	319,860
Federal Business Development Bank (Joint Auditor)	31.03.90	309,470
Freshwater Fish Marketing Corporation	30.04.89	114,020
Great Lakes Pilotage Authority, Ltd.	31.12.89	58,570
Harbourfront Corporation (Joint Auditor)	31.03.90	55,250
International Centre for Ocean Development	31.03.90	61,320
Laurentian Pilotage Authority	31.12.89	79,430
Marine Atlantic Inc. (Joint Auditor)	31.12.89	163,510
National Capital Commission	31.03.90	192,060
Pacific Pilotage Authority	31.12.89	37,300
Royal Canadian Mint	31.12.89	227,180
The St. Lawrence Seaway Authority	31.03.90	118,580
Seaway International Bridge Corporation Ltd	31.12.89	28,650
The Jacques Cartier and Champlain Bridges Incorporated	31.03.90	80,100
Standards Council of Canada	31.03.90	37,560
Teleglobe Canada	31.12.89	8,820
VIA Rail Inc.	31.12.89	502,190

prescriptions to better communicate legislative audit information.

Costs of Crown Corporations Work

31.67 Pursuant to Section 132 of the Financial Administration Act (FAA), where it is the appointed auditor, the Office must provide an annual audit report on each parent Crown corporation and its wholly owned subsidiaries. This report includes an opinion on their financial statements and an opinion on compliance with specified authorities. It may also include reporting on any other matter deemed significant. Section 147 of the FAA requires that the Office report the costs of preparing these annual audit reports on Crown corporations (see Exhibit 31.3). These costs are "fully loaded", as described in paragraph 31.27.

31.68 Section 138 of the FAA requires that, at least once every five years, each parent Crown corporation named in Schedule III of the FAA (and its wholly owned subsidiaries) undergo a special examination. This requirement is distinct from the requirement for annual audit reports described above.

31.69 The objective of a special examination is to determine whether a corporation's financial and management control and information systems and its management practices can provide reasonable assurance that:

- assets have been safeguarded and controlled;
- financial, human and physical resources have been managed economically and efficiently; and
- operations have been carried out effectively.

31.70 In 1989/90 the Office completed seventeen special examinations. The "fully loaded" costs of these special examinations is shown in Exhibit 31.4.

Exhibit 31.4

COSTS OF SPECIAL EXAMINATIONS COMPLETED IN 1989/90

Canada Deposit Insurance Corporation	$ 570,990
Canada Development Investment Corporation	176,770
Canada Harbour Place Corporation	58,650
Canada Lands Company Limited	4,050
Canada Lands Company (Le Vieux-Port de Montreal) Limited	266,260
Canada Lands Company (Mirabel) Limited	5,740
Canada Lands Company (Vieux-Port de Québec) Inc.	2,910
Canada Post Corporation	1,821,990
Canadian Dairy Commission	515,880
Canadian Patents and Development Limited	99,810
Defence Construction (1951) Ltd.	288,630
Export Development Corporation	646,350
Freshwater Fish Marketing Corporation	216,770
Laurentian Pilotage Authority	288,180
Royal Canadian Mint	770,760
Standards Council of Canada	120,810
The St. Lawrence Seaway Authority and subsidiaries	1,052,600
Seaway International Bridge Corp.	
Jacques Cartier and Champlain Bridges	

Exhibit 31.5

OFFICE OF THE AUDITOR GENERAL OF CANADA
APPROPRIATIONS AND EXPENDITURES

Appropriations and Expenditures by Activity

	1990/91	1989/90		1988/89	
	Estimates	Appropriations	Expenditures	Appropriations	Expenditures
			(thousands of dollars)		
Legislative Auditing	$ 56,160	$ 52,680	$ 52,614	$ 48,505	$ 48,441
TOTAL	$ 56,160	$ 52,680	$ 52,614	$ 48,505	$ 48,441

Appropriations and Expenditures by Object

	1990/91	1989/90		1988/89	
	Estimates	Appropriations	Expenditures	Appropriations	Expenditures
			(thousands of dollars)		
Salaries and Wages	$ 34,042	$ 31,896	$ 32,240	$ 29,660	$ 28,753
Contributions to Employee Benefit Plans	5,154	4,848	4,848	4,665	4,665
Transportation and Communications	3,394	3,122	3,656	2,920	3,206
Information	245	225	348	238	286
Professional and Special Services	9,574	7,732	7,117	7,050	7,045
Rentals	294	270	272	300	268
Purchased Repair and Upkeep	539	758	522	396	517
Utilities, Materials and Supplies	906	832	772	661	723
Capital-Construction or Acquisition of Machinery and Equipment	1,500	2,502	2,340	2,133	2,493
Transfer Payments	505	488	481	472	471
All Other Expenditures	7	7	18	10	14
TOTAL	$ 56,160	$ 52,680	$ 52,614	$ 48,505	$ 48,441

Financial Resources

31.71 The Office provides details supporting its resource requirements in Part III of the Estimates of the Government of Canada. For the fiscal year 1990/91 the Office's Part III document was tabled in the House of Commons in February 1990. It shows an increase in requirements over 1989/90 of $5.2 million.

31.72 Salaries account for about half of this increase. The remainder reflects new audit assignments. These include major Crown corporations, work in the Yukon and Northwest Territories and work in new government departments. Also, at the request of the Minister of Agriculture, the Office now provides audit opinions on certain price stabilization programs.

31.73 Exhibit 31.5 provides a comparative overview of the Office's appropriations and expenditures.

APPENDIX A

AUDITOR GENERAL ACT

R.S., c. A-17

An Act respecting the office of the Auditor
General of Canada and matters related
or incidental thereto

SHORT TITLE

Short title

1. This Act may be cited as the *Auditor General Act*. 1976-77, c. 34, s.1.

INTERPRETATION

Definitions

2. In this Act,

"Auditor General"

"Auditor General" means the Auditor General of Canada appointed pursuant to subsection 3(1);

"Crown corporation"

"Crown corporation" has the meaning assigned by section 83 of the *Financial Administration Act;*

"Department"

"department" has the meaning assigned to that term by section 2 of the *Financial Administration Act;*

"Registrar"

"registrar" means the Bank of Canada and a registrar appointed under Part IV of the *Financial Administration Act* 1976-77, c. 34, s.2, 1984, c. 31, s.14.

AUDITOR GENERAL OF CANADA

Appointment and tenure of office

3. (1) The Governor in Council shall, by commission under the Great Seal, appoint a qualified auditor to be the officer called the Auditor General of Canada to hold office during good behaviour for a term of ten years, but the Auditor General may be removed by the Governor in Council on address of the Senate and House of Commons.

Idem

(2) Notwithstanding subsection (1), the Auditor General ceases to hold office on attaining the age of sixty-five years.

Re-appointment

(3) Once having served as the Auditor General, a person is not eligible for re-appointment to that office.

Vacancy

(4) In the event of the absence or incapacity of the Auditor General or if the office of Auditor General is vacant, the Governor in Council may appoint a person temporarily to perform the duties of Auditor General. 1976-77, c. 34, s.3.

Salary

4. (1) The Auditor General shall be paid a salary equal to the salary of a puisne judge of the Supreme Court of Canada.

Pension benefits

(2) The provisions of the *Public Service Superannuation Act*, other than those relating to tenure of office, apply to the Auditor General except that a person appointed as Auditor General from outside the Public Service may, by notice in writing given to the

President of the Treasury Board not more than sixty days after the date of his appointment as Auditor General, elect to participate in the pension plan provided for in the *Diplomatic Service (Special) Superannuation Act* in which case the provisions of that Act, other than those relating to tenure of office, apply to him and the provisions of the *Public Service Superannuation Act* do not apply to him. 1976-77, c. 34, s.4; 1980-81-82-83, c. 50 s.23, c. 55, s.1.

DUTIES

Examination

5. The Auditor General is the auditor of the accounts of Canada, including those relating to the Consolidated Revenue Fund and as such shall make such examinations and inquiries as he considers necessary to enable him to report as required by this Act. 1976-77, c. 34, s.5.

Idem

6. The Auditor General shall examine the several financial statements required by section 64 of the *Financial Administration Act* to be included in the Public Accounts, and any other statement that the President of the Treasury Board or the Minister of Finance may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have. 1976-77, c. 34, s. 6; 1980-81-82-83, c. 170, s. 25.

Report to House of Commons

7. (1) The Auditor General shall report annually to the House of Commons

(a) on the work of his office; and,

(b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

Idem

(2) Each report of the Auditor General under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons, including any cases in which he has observed that

(a) accounts have not been faithfully and properly maintained or public money has not been fully accounted for or paid, where so required by law, into the Consolidated Revenue Fund;

(b) essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property, to secure an effective check on the assessment, collection and proper allocation of the revenue and to ensure that expenditures have been made only as authorized;

(c) money has been expended other than for purposes for which it was appropriated by Parliament;

(d) money has been expended without due regard to economy or efficiency; or

(e) satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented.

Submission of report to Speaker and tabling in the House of Commons

(3) Each annual report by the Auditor General to the House of Commons shall be submitted to the Speaker of the House of Commons on or before the 31st day of December in the year to which the report relates and the Speaker of the House of Commons shall lay each such report before the House of Commons forthwith after receipt thereof by him or, if that House is not then sitting, on the first day next thereafter that the House of Commons is sitting. 1976-77, c. 34, s.7.

Special report

8. (1) The Auditor General may make a special report to the House of Commons on any matter of pressing importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report.

Submission of reports to Speaker and tabling in the House of Commons

(2) Each special report of the Auditor General to the House of Commons made under subsection (1) or 19(2) shall be submitted to the Speaker of the House of Commons and shall be laid before the House of Commons by the Speaker of the House of Commons forthwith after receipt thereof by him, or if that House is not then sitting, on the first day next thereafter that the House of Commons is sitting. 1976-77, c. 34, s.8.

Idem

9. The Auditor General shall

(a) make such examination of the accounts and records of each registrar as he deems necessary, and such other examinations of a registrar's transactions as the Minister of Finance may require, and;

(b) when and to the extent required by the Minister of Finance, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities authorized to be destroyed under the *Financial Administration Act;*

and he may, by arrangement with a registrar, maintain custody and control, jointly with that registrar, of cancelled and unissued securities. 1976-77, c. 34, s.9.

Improper retention of public money

10. Whenever it appears to the Auditor General that any public money has been improperly retained by any person, he shall forthwith report the circumstances of the case to the President of the Treasury Board. 1976-77, c. 34, s.10.

Inquiry and Report

11. The Auditor General may, if in his opinion such an assignment does not interfere with his primary responsibilities, whenever the Governor in Council so requests, inquire into and report on any matter relating to the financial affairs of Canada or to public property or inquire into and report on any person or organization that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought. 1976-77, c. 34, s.11.

Advisory powers

12. The Auditor General may advise appropriate officers and employees in the public service of Canada of matters discovered in his examinations and, in particular, may draw any such matter to the attention of officers and employees engaged in the conduct of the business of the Treasury Board. 1976-77, c. 34, s.12.

ACCESS TO INFORMATION

Access to information

13. (1) Except as provided by any other Act of Parliament that expressly refers to this subsection, the Auditor General is entitled to free access at all convenient times to information that relates to the fulfilment of his responsibilities and he is also entitled to require and receive from members of the public service of Canada such information, reports and explanations as he deems necessary for that purpose.

Stationing of officers in departments

(2) In order to carry out his duties more effectively, the Auditor General may station in any department any person employed in his office, and the department shall provide the necessary office accommodation for any person so stationed.

Oath of secrecy

(3) The Auditor General shall require every person employed in his office who is to examine the accounts of a department or of a Crown corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department or Crown corporation.

Inquiries

(4) The Auditor General may examine any person on oath on any matter pertaining to any account subject to audit by him and for the purposes of any such examination the Auditor General may exercise all the powers of a commissioner under Part I of the *Inquiries Act*. 1976-77, c. 34, s.13.

Reliance on audit reports of Crown corporations

14. (1) Notwithstanding subsections (2) and (3), in order to fulfil his responsibilities as the auditor of the accounts of Canada, the Auditor General may rely on the report of the duly appointed auditor of a Crown corporation or of any subsidiary of a Crown corporation.

Auditor General may request information

(2) The Auditor General may request a Crown corporation to obtain and furnish to him such information and explanations from its present or former directors, officers, employees, agents and auditors or those of any of its subsidiaries as are, in his opinion, necessary to enable him to fulfil his responsibilities as the auditor of the accounts of Canada.

Direction of the Governor in Council

(3) If, in the opinion of the Auditor General, a Crown corporation, in response to a request made under subsection (2), fails to provide any or sufficient information or explanations, he may so advise the Governor in Council, who may thereupon direct the officers of the corporation to furnish the Auditor General with such information and explanations and to give him access to those records, documents, books, accounts and vouchers of the corporation or any of its subsidiaries access to which is, in the opinion of the Auditor General, necessary for him to fulfil his responsibilities as the auditor of the accounts of Canada. 1976-77, c. 34, s.14.

STAFF OF THE AUDITOR GENERAL

Officers, etc.

15. (1) Such officers and employees as are necessary to enable the Auditor General to perform his duties shall be appointed in accordance with the *Public Service Employment Act*.

Contract for professional services

(2) Subject to any other Act of Parliament or regulations made thereunder, but without the approval of the Treasury Board, the Auditor General may, within the total dollar limitations established for his office in appropriation Acts, contract for professional services.

Delegation to Auditor General

(3) The Auditor General may exercise and perform, in such manner and subject to such terms and conditions as the Public Service Commission directs, the powers, duties and functions of the Public Service Commission under the *Public Service Employment Act*, other than the powers, duties and functions of the Commission in relation to appeals under sections 21 and 31 of that Act and inquiries under section 34 of that Act.

Suspension

(4) The Auditor General may suspend from the performance of his duty any person employed in his office. 1976-77, c. 34, s.15.

Responsibility for personnel management

16. In respect of persons employed in his office, the Auditor General is authorized to exercise the powers and perform the duties and functions of the Treasury Board under the *Financial Administration Act* that relate to personnel management including the determination of terms and conditions of employment and the responsibility for employer and employee relations, within the meaning of paragraph (1)(e) and sections 11 to 13 of that Act. 1976-77, c. 34, s.16.

Classification standards

17. Classification standards may be prepared for persons employed in the office of the Auditor General to conform with the classifications that the Auditor General recognizes for the purposes of that office. 1976-77, c. 34, s.18.

Delegation

18. The Auditor General may designate a senior member of his staff to sign on his behalf any opinion that he is required to give and any report, other than his annual report on the financial statements of Canada made pursuant to section 64 of the *Financial Administration Act* and his reports to the House of Commons under this Act and any member so signing an opinion or report shall indicate beneath his signature his position in the office of the Auditor General and the fact that he is signing on behalf of the Auditor General. 1976-77, c. 34, s.19.

ESTIMATES

Estimates

19. (1) The Auditor General shall annually prepare an estimate of the sums that will be required to be provided by Parliament for the payment of the salaries, allowances and expenses of his office during the next ensuing fiscal year.

Special report

(2) The Auditor General may make a special report to the House of Commons in the event that amounts provided for his office in the estimates submitted to Parliament are, in his opinion, inadequate to enable him to fulfil the responsibilities of his office. 1976-77, c. 34, s.20.

Approbation allotments

20. The provisions of the *Financial Administration Act* with respect to the division of appropriations into allotments do not apply in respect of appropriations for the office of the Auditor General. 1976-77, c. 34, s.21.

AUDIT OF THE OFFICE OF THE AUDITOR GENERAL

Audit of office of the Auditor General

21. (1) A qualified auditor nominated by the Treasury Board shall examine the receipts and disbursements of the office of the Auditor General and shall report annually the outcome of his examinations to the House of Commons.

Submission of reports and tabling

(2) Each report referred to in subsection (1) shall be submitted to the President of the Treasury Board on or before the 31st day of December in the year to which the report relates and the President of the Treasury Board shall lay each such report before the House of Commons within fifteen days after receipt thereof by him or, if that House is not then sitting, on any of the first fifteen days next thereafter that the House of Commons is sitting. 1976-77 c. 34, s.22.

APPENDIX B

FINANCIAL ADMINISTRATION ACT

EXTRACTS FROM PART X

FINANCIAL ADMINISTRATION ACT

R.S., c. F-11

Extracts from Part X

CROWN CORPORATIONS

Financial Management

Books and systems

131. (1) Each parent Crown corporation shall cause

(a) books of account and records in relation thereto to be kept, and

(b) financial and management control and information systems and management practices to be maintained,

in respect of itself and each of its wholly-owned subsidiaries, if any

Idem

(2) The books, records, systems and practices referred to in subsection (1) shall be kept and maintained in such manner as will provide reasonable assurance that

(a) the assets of the corporation and each subsidiary are safeguarded and controlled;

(b) the transactions of the corporation and each subsidiary are in accordance with this Part, the regulations, the charter and by-laws of the corporation or subsidiary and any directive given to the corporation; and

(c) the financial, human and physical resources of the corporation and each subsidiary are managed economically and efficiently and the operations of the corporation and each subsidiary are carried out effectively.

Internal audit

(3) Each parent Crown corporation shall cause internal audits to be conducted, in respect of itself and each of its wholly-owned subsidiaries, if any, to assess compliance with subsections (1) and (2), unless the Governor in Council is of the opinion that the benefits to be derived from those audits do not justify their cost

Financial statements

(4) Each parent Crown corporation shall cause financial statements to be prepared annually, in respect of itself and its wholly-owned subsidiaries, if any, in accordance with generally accepted accounting principles as supplemented or augmented by regulations made pursuant to subsection (6).

Form of financial statements

(5) The financial statements of a parent Crown corporation and of a wholly-owned subsidiary shall be prepared in a form that clearly sets out information according to the major businesses or activities of the corporation or subsidiary.

Regulations

(6) The Treasury Board may, for the purposes of subsection (4), make regulations respecting financial statements either generally or in respect of any specified parent Crown corporation or any parent Crown corporation of a specified class, but such regulations shall, in respect of the preparation of financial statements, only supplement or augment generally accepted accounting principles. 1984, c. 31, s. 11.

Auditor's Reports

Annual auditor's report

132. (1) Each parent Crown corporation shall cause an annual auditor's report to be prepared, in respect of itself and its wholly-owned subsidiaries, if any, in accordance with the regulations, on

(a) the financial statements referred to in section 131; and

(b) any quantitative information required to be audited pursuant to subsection (5).

Contents

(2) A report under subsection (1) shall be addressed to the appropriate Minister and shall

(a) include separate statements, whether in the auditor's opinion,

(i) the financial statements are presented fairly in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year,

(ii) the quantitative information is accurate in all material respects and, if applicable, was prepared on a basis consistent with that of the preceding year, and

(iii) the transactions of the corporation and of each subsidiary that have come to his notice in the course of the auditor's examination for the report were in accordance with this Part, the regulations, the charter and by-laws of the corporation or subsidiary and any directive given to the corporation; and

(b) call attention to any other matter falling within the scope of the auditor's examination for the report that, in his opinion, should be brought to the attention of Parliament.

Regulations

(3) The Treasury Board may make regulations prescribing the form and manner in which the report referred to in subsection (1) is to be prepared.

Separate reports

(4) Notwithstanding any other provision of this Part, the auditor of a parent Crown corporation may prepare separate annual auditor's reports on the statements referred to in paragraph (1)(a) and on the information referred to in paragraph (1)(b) if, in the auditor's opinion, separate reports would be more appropriate.

Audit of quantitative information

(5) The Treasury Board may require that any quantitative information required to be included in a parent Crown corporation's annual report pursuant to subsection 150(3) be audited.

Other reports

(6) The auditor of a parent Crown corporation shall prepare such other reports respecting the corporation or any wholly-owned subsidiary of the corporation as the Governor in Council may require.

Examination

(7) An auditor shall make such examination as he considers necessary to enable him to prepare a report under subsection (1) or (6).

Reliance on internal audit

(8) An auditor shall, to the extent he considers practicable, rely on any internal audit of the corporation being audited that is conducted pursuant to subsection 131(3). 1984, c. 31, s. 11.

Errors and omissions

133. (1) A director or officer of a Crown corporation shall forthwith notify the auditor and the audit committee of the corporation, if any, of any error or omission of which the director or officer becomes aware in a financial statement that the auditor or a former auditor has reported on or in a report prepared by the auditor or a former auditor pursuant to section 132.

Idem

(2) Where an auditor or former auditor of a Crown corporation is notified or becomes aware of any error or omission in a financial statement that the auditor or former auditor has reported on or in a report prepared by the auditor or former auditor pursuant to section 132, he shall forthwith notify each director of the corporation of the error or omission if he is of the opinion that the error or omission is material.

Correction

(3) Where an auditor or former auditor of a Crown corporation notifies the directors of an error or omission in a financial statement or report pursuant to subsection (2), the corporation shall prepare a revised financial statement or the auditor or former auditor shall issue a correction to the report, as the case may be, and a copy thereof shall be given to the appropriate Minister. 1984, c. 31, s. 11.

Auditors

Appointment of auditor

134. (1) The auditor of a parent Crown corporation shall be appointed annually by the Governor in Council, after the appropriate Minister has consulted the board of directors of the corporation, and may be removed at any time by the Governor in Council, after the appropriate Minister has consulted the board.

Auditor General

(2) On and after January 1, 1989, the Auditor General of Canada shall be appointed by the Governor in Council as the auditor, or a joint auditor, of each parent Crown corporation named in Part I of Schedule III, unless the Auditor General waives the requirement that he be so appointed.

Idem

(3) Subsections (1) and (2) do not apply in respect of any parent Crown corporation the auditor of which is specified by any other Act of Parliament to be the Auditor General of Canada, but the Auditor General is eligible to be appointed the auditor, or a joint auditor, of a parent Crown corporation pursuant to subsection (1) and section 135 does not apply to him.

Exception

(4) Notwithstanding subsection (1), where the report referred to in subsection 132(1) is to be prepared in respect of a wholly-owned subsidiary separately, the board of directors of the parent Crown corporation that wholly owns the subsidiary shall, after consultation with the board of directors of the subsidiary, appoint the auditor of the subsidiary, and subsections (6) and sections 135 to 137 apply in respect of that auditor as though the references therein to a parent Crown corporation were references to the subsidiary.

Criteria for appointment

(5) The Governor in Council may make regulations prescribing the criteria to be applied in selecting an auditor for appointment pursuant to subsection (1) or (4).

Re-appointment (6) An auditor of a parent Crown corporation is eligible for re-appointment on the expiration of his appointment.

Continuation in office (7) Notwithstanding subsection (1), if an auditor of a parent Crown corporation is not appointed to take office on the expiration of the appointment of an incumbent auditor, the incumbent auditor continues in office until his successor is appointed. 1984, c.31, s.11.

Persons not eligible **135.** (1) A person is disqualified from being appointed or re-appointed or continuing as an auditor of a parent Crown corporation pursuant to section 134 if that person is not independent of the corporation, any of its affiliates, or the directors or officers of the corporation or any of its affiliates.

Independence (2) For the purpose of this section,

(a) independence is a question of fact; and

(b) a person is deemed not to be independent if that person or any of his business partners

(i) is a business partner, director, officer or employee of the parent Crown corporation or any of its affiliates, or a business partner of any director, officer or employee of the corporation or any of its affiliates,

(ii) beneficially owns or controls, directly or indirectly through a trustee, legal representative, agent or other intermediary, a material interest in the shares or debt of the parent Crown corporation or any of its affiliates, or

(iii) has been a receiver, receiver-manager, liquidator or trustee in bankruptcy of the parent Crown corporation or any of its affiliates within two years of his proposed appointment as auditor of the corporation.

Resignation (3) An auditor of a parent Crown corporation who becomes disqualified under this section shall resign forthwith after becoming aware of his disqualification. 1984, c.31, s.11.

Qualifications preserved **136.** Nothing in sections 134 and 135 shall be construed as empowering the appointment, re-appointment or continuation in office as an auditor of a parent Crown corporation of any person who does not meet any qualifications for such appointment, re-appointment or continuation established by any other Act of Parliament. 1984, c. 31, s. 11.

Resignation **137.** A resignation of an auditor of a parent Crown corporation becomes effective at the time the corporation receives a written resignation from the auditor or at the time specified in the resignation, whichever is later. 1984, c. 31, s. 11.

Special Examination

Special examination

138. (1) Each parent Crown corporation shall cause a special examination to be carried out in respect of itself and its wholly-owned subsidiaries, if any, to determine if the systems and practices referred to in paragraph 131(1)(b) were, in the period under examination, maintained in a manner that provided reasonable assurance that they met the requirements of paragraphs 131(2)(a) and (c).

Time for examination

(2) A special examination shall be carried out at least once every five years and at such additional times as the Governor in Council, the appropriate Minister or the board of directors of the corporation to be examined may require.

Plan

(3) Before an examiner commences a special examination, he shall survey the systems and practices of the corporation to be examined and submit a plan for the examination, including a statement of the criteria to be applied in the examination, to the audit committee of the corporation, or if there is no audit committee, to the board of directors of the corporation.

Resolution of disagreements

(4) Any disagreement between the examiner and the audit committee or board of directors of a corporation with respect to a plan referred to in subsection (3) may be resolved

(a) in the case of a parent Crown corporation, by the appropriate Minister; and

(b) in the case of a wholly-owned subsidiary, by the parent Crown corporation that wholly owns the subsidiary.

Reliance on internal audit

(5) An examiner shall, to the extent he considers practicable, rely on any internal audit of the corporation being examined conducted pursuant to subsection 131(3). 1984, c.31, s.11.

Report

139. (1) An examiner shall, on completion of the special examination, submit a report on his findings to the board of directors of the corporation examined.

Contents

(2) The report of an examiner under subsection (1) shall include

(a) a statement, whether in the examiner's opinion, with respect to the criteria established pursuant to subsection 138(3), there is reasonable assurance that there are no significant deficiencies in the systems and practices examined; and

(b) a statement of the extent to which the examiner relied on internal audits. 1984, c.31, s.11.

Special report to appropriate Minister

140. Where the examiner of a parent Crown corporation, or a wholly owned subsidiary of a parent Crown corporation, named in Part I of Schedule III is of the opinion that his report under subsection 139(1) contains information that should be brought to the attention of the appropriate Minister, he shall, after consultation with the board of directors of the corporation, or with the board of the subsidiary and corporation, as the case may be, report that information to the Minister and furnish the board or boards with a copy of the report. 1984, c.31, s.11.

Special report to Parliament

141. Where the examiner of a parent Crown corporation, or a wholly-owned subsidiary of a parent Crown corporation, named in Part I of Schedule III of the opinion that his report under subsection 139(1) contains information that should be brought to the attention of Parliament, he shall, after consultation with the appropriate Minister and the board of directors of the corporation, or with the boards of the subsidiary and corporation, as the case may be, prepare a report thereon for inclusion in the next annual report of the corporation and furnish the board or boards, the appropriate Minister and the Auditor General of Canada with copies of the report. 1984, c.31, s.11.

Examiner

142. (1) Subject to subsections (2) and (3), a special examination referred to in section 138 shall be carried out by the auditor of a parent Crown corporation.

Idem

(2) Where, in the opinion of the Governor in Council, a person other than the auditor of a parent Crown corporation should carry out a special examination, the Governor in Council may, after the appropriate Minister has consulted the board of directors of the corporation, appoint an auditor who is qualified for the purpose to carry out the examination in lieu of the auditor of the corporation and may, after the appropriate Minister has consulted the board, remove that qualified auditor at any time.

Exception

(3) Where a special examination is to be carried out in respect of a wholly-owned subsidiary separately, the board of directors of the parent Crown corporation that wholly owns the subsidiary shall, after consultation with the board of directors of the subsidiary, appoint the qualified auditor who is to carry out the special examination.

Applicable provisions

(4) Subject to subsection (5), sections 135 and 137 apply in respect of an examiner as though the references therein to an auditor were references to an examiner.

Auditor General eligible

(5) The Auditor General of Canada is eligible to be appointed an examiner and section 135 does not apply to the Auditor General of Canada in respect of such an appointment. 1984, c. 31, s. 11.

Consultation with Auditor General

Consultation with Auditor General

143. The auditor or examiner of a Crown corporation may at any time consult the Auditor General of Canada on any matter relating to his audit or special examination and shall consult the Auditor General with respect to any matter that, in the opinion of the auditor or examiner, should be brought to the attention of Parliament pursuant to paragraph 132(2)(b) or section 141. 1984, c. 31, s. 11.

Right to Information

Right to information

144. (1) On the demand of the auditor or examiner of a Crown corporation, the present or former directors, officers, employees or agents of the corporation shall furnish such

(a) information and explanations, and

(b) access to records, documents, books, accounts and vouchers of the corporation or any of its subsidiaries

as the auditor or examiner considers necessary to enable him to prepare any report as required by this Division and that the directors, officers, employees or agents are reasonably able to furnish.

Idem

(2) On the demand of the auditor or examiner of a Crown corporation, the directors of the corporation shall

(a) obtain from the present or former directors, officers, employees or agents of any subsidiary of the corporation such information and explanations as the auditor or examiner considers necessary to enable him to prepare any report as required by this Division and that the present or former directors, officers, employees or agents are reasonably able to furnish; and

(b) furnish the auditor or examiner with the information and explanations so obtained.

Reliance on reports

(3) An auditor or examiner of a Crown corporation may reasonably rely on any report of any other auditor or examiner. 1984, c. 31, s. 11.

Policy

Restriction

145. Nothing in this Part or the regulations shall be construed as authorizing the auditor or examiner of a Crown corporation to express any opinion on the merits of matters of policy, including the merits of

(a) the objects or purposes for which the corporation is incorporated, or the restrictions on the businesses or activities that it may carry on, as set out in its charter;

(b) the objectives of the corporation; and

(c) any business or policy decision of the corporation or of the Government of Canada. 1984, c. 31, s. 11.

Qualified Privilege

Qualified privilege

146. Any oral or written statement or report made under this Part or the regulations by the auditor or a former auditor, or the examiner or a former examiner, of a parent Crown corporation has qualified privilege. 1984, c. 31, s. 11.

Costs

Cost of audit and examination

147. (1) The amounts paid to an auditor or examiner of a Crown corporation for preparing any report under section 132, 139, 140 or 141 shall be reported to the President of the Treasury Board.

Idem

(2) Where the Auditor General of Canada is the auditor or examiner of a Crown corporation, the costs incurred by him in preparing any report under section 132, 139, 140 or 141 shall be disclosed in the next annual report of the Auditor General and be paid out of the moneys appropriated for his office. 1984, c. 31, s. 11.

Audit Committee

Audit committee

148. (1) Each parent Crown corporation that has four or more directors shall establish an audit committee composed of not less than three directors of the corporation, the majority of whom are not officers or employees of the corporation or any of its affiliates.

Idem

(2) In the case of a parent Crown corporation that has less than four directors, the board of directors of the corporation constitutes the audit committee of the corporation and shall perform the duties and functions assigned to an audit committee by any provision of this Part and the provision shall be construed accordingly.

Duties

(3) The audit committee of a parent Crown corporation shall

(a) review, and advise the board of directors with respect to, the financial statements that are to be included in the annual report of the corporation;

(b) oversee any internal audit of the corporation that is conducted pursuant to subsection 131(3);

(c) review, and advise the board of directors with respect to, the annual auditor's report of the corporation referred to in subsection 132(1);

(d) in the case of a corporation undergoing a special examination, review, and advise the board of directors with respect to, the plan and reports referred to in sections 138 to 141; and

(e) perform such other functions as are assigned to it by the board of directors or the charter or by-laws of the corporation.

Auditor's or examiner's attendance

(4) The auditor and any examiner of a parent Crown corporation are entitled to receive notice of every meeting of the audit committee and, at the expense of the corporation, to attend and be heard at each meeting; and, if so requested by a member of the audit committee, the auditor or examiner shall attend any or every meeting of the committee held during his term of office.

Calling meeting

(5) The auditor or examiner of a parent Crown corporation or a member of the audit committee may call a meeting of the committee.

Wholly-owned subsidiary

(6) Where the report referred to in subsection 132(1) is to be prepared in respect of a wholly-owned subsidiary separately, subsections (1) to (5) apply, with such modifications as the circumstances require, in respect of the subsidiary as though

(a) the references in subsections (1) to (5) to a parent Crown corporation were references to the subsidiary; and

(b) the reference in paragraph (3)(a) to the annual report of the corporation were a reference to the annual report of the parent Crown corporation that wholly owns the subsidiary. 1984, c. 31, s. 11.

Reports

Accounts, etc. to Treasury Board or appropriate Minister

149. (1) A parent Crown corporation shall provide the Treasury Board or the appropriate Minister with such accounts, budgets, returns, statements, documents, records, books, reports or other information as the Board or appropriate Minister may require.

Reports on material developments

(2) The chief executive officer of a parent Crown corporation shall, as soon as reasonably practicable, notify the appropriate Minister, the President of the Treasury Board and any director of the corporation not already aware thereof of any financial or other developments that, in the chief executive officer's opinion, are likely to have a material effect on the performance of the corporation, including its wholly-owned subsidiaries, if any, relative to the corporation's objectives or on the corporation's requirements for funding.

Reports on wholly-owned subsidiaries

(3) Each parent Crown corporation shall forthwith notify the appropriate Minister and the President of the Treasury Board of the name of any corporation that becomes or ceases to be a wholly-owned subsidiary of the corporation. 1984, c. 31, s. 11.

Annual report

150. (1) Each parent Crown corporation shall, as soon as possible, but in any case within three months, after the termination of each financial year submit an annual report on the operations of the corporation in that year concurrently to the appropriate Minister and the President of the Treasury Board, and the appropriate Minister shall cause a copy of the report to be laid before each House of Parliament on any of the first fifteen days on which that House is sitting after he receives it.

Reference to committee

(2) An annual report laid before Parliament pursuant to subsection (1) stands permanently referred to such committee of Parliament as may be designated or established to review matters relating to the business and activities of the corporation submitting the report.

Form and contents

(3) The annual report of a parent Crown corporation shall include

(a) the financial statements of the corporation referred to in section 131,

(b) the annual auditor's report referred to in subsection 132(1),

(c) a statement on the extent to which the corporation has met its objectives for the financial year,

(d) such quantitative information respecting the performance of the corporation, including its wholly-owned subsidiaries, if any, relative to the corporation's objectives as the Treasury Board may require to be included in the annual report, and

(e) such other information as is required by this or any other Act of Parliament, or by the appropriate Minister, the President of the Treasury Board or the Minister of Finance, to be included in the annual report,

and shall be prepared in a form that clearly sets out information according to the major businesses or activities of the corporation and its wholly-owned subsidiaries, if any.

Idem

(4) In addition to any other requirements under this Act or any other Act of Parliament, the Treasury Board may, by regulation, prescribe the information to be included in annual reports and the form in which such information is to be prepared. 1984, c. 31, s. 11.

Annual consolidated report

151. (1) The President of the Treasury Board shall, not later than December 31 of each year, cause a copy of an annual consolidated report on the businesses and activities of all parent Crown corporations for their financial years ending on or before the previous July 31 to be laid before each House of Parliament.

Reference to committee

(2) An annual consolidated report laid before Parliament pursuant to subsection (1) stands permanently referred to such committee of Parliament as may be designated or established to review matters relating to Crown corporations.

Contents

(3) The annual consolidated report referred to in subsection (1) shall include

(a) a list naming, as of a specified date, all Crown corporations and all corporations of which any shares are held by, on behalf of or in trust for the Crown or any Crown corporation;

(b) employment and financial data, including aggregate borrowings of parent Crown corporations; and

(c) such other information as the President of the Treasury Board may determine. 1984, c. 31, s. 11.

Quarterly report

152. (1) The President of the Treasury Board shall cause to be laid before each House of Parliament a copy of a report indicating, in respect of each quarter of each calendar year, the summaries and annual reports that under this Part were to be laid before that House in the quarter, the time at, before or within which they were to be laid and the time they were laid before that House.

Attest

(2) The accuracy of the information contained in each quarterly report shall be attested by the Auditor General of Canada in his annual report to Parliament.

Time for tabling quarterly report

(3) A quarterly report shall be laid before each House of Parliament pursuant to subsection (1) on any of the first thirty days on which that House is sitting after the end of the quarter to which the report relates. 1984, c. 31, s. 11.

APPENDIX C

REPORTS OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS TO THE HOUSE OF COMMONS

REPORT TO THE HOUSE

Tuesday, October 10, 1989

The Standing Committee on Public Accounts has the honour to present its

SECOND REPORT

1. In accordance with its permanent Order of Reference contained in Standing Order 108(3)(f), your Committee has considered Volume 1, Section 2, Audited Financial Statements of the Government of Canada, in the 1987-88 Public Accounts of Canada and the Auditor General's observations contained in Chapter 2 of his Annual Report for the fiscal year ending March 31, 1988.

Previous Reports

2. Your Committee has considered and reported to the House with respect to the audited financial statements of the Government on several occasions since the mandate to audit these financial statements was first included in the Auditor General Act in 1977. In every case, the Auditor General expressed at least two reservations on these financial statements in his audit Opinions. Each of your Committee's reports have addressed these reservations and sought their removal, to enable a "clean" Opinion, without any reservations.

3. In the Thirteenth Report tabled March 22, 1982 (1st Session, 32nd Parliament), your Committee noted the differences between the accounting policies followed by the Government and generally accepted accounting principles developed by the accounting profession for use in the private sector. Principles developed in the private sector may not be suitable for the public sector. Consequently, your Committee recognized the establishment at that time of the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants (CICA), a group devoted to the establishment in governments of sound accounting and auditing standards and practices. Both the Office of the Comptroller General, which is responsible for the Government's response to the audit Opinion, and the Office of the Auditor General are involved in the ongoing work of PSAAC.

4. In the most recent report on this subject, the Eighth Report, tabled June 30, 1987 (2nd Session, 33rd Parliament), your Committee endorsed the work of PSAAC, notably the issuance of a statement on "General Standards of Financial Statement Presentation for Governments" (in November 1986). In addition, in order to move towards a "clean" Opinion, your Committee recommended that the Government invite the CICA to examine those accounting policies of the Government that cause concern to the Auditor General or do not fully conform to CICA standards. In particular, your Committee recommended that the Government obtain an independent professional opinion from the CICA on the reporting of sovereign loans where the risk of loss to the Government of Canada is significant. The CICA declined to play such a role. There continues to be a fundamental disagreement between the Government and the Auditor General on the reporting of sovereign loans in the Government's financial statements, as expressed in the Auditor General's Reservation 1 on the 1987-88 financial statements (Failure toProvide for Crown Corporation Borrowings). Your Committee is of the view that this matter requires further study.

Progress in Government Accounting

5. Your Committee notes that PSAAC has made further important progress. Recent pronouncements, in November 1988, have dealt with the reporting entity issue, how governments will report on the full range of their activities--including Crown corporations--in their financial statements and the pension liabilities issue, how governments will account for and disclose liabilities arising from employee pensions. Both the reporting entity and pension issues are the subject of longstanding reservations of the Auditor General.

6. Over the last eight or nine years, largely as a result of the work of the CICA, the basic framework for generally accepted accounting principles for governments has been developed. A series of pronouncements, issued by PSAAC, benefit both auditors and governments by establishing ground rules for improving financial reporting by governments and avoiding audit reservations.

7. Your Committee noted that the Comptroller General is working towards the implementation of PSAAC recommendations. The Auditor General has stated that compliance with PSAAC pronouncements would eliminate two existing reservations and help avoid new reservations. Your Committee is encouraged by these developments.

8. Your Committee also noted that accounting policy changes would be required to eliminate the reservations from the Auditor General's Opinion, and that such changes are announced in the annual Budget of the Minister of Finance

9. Your Committee received strong commitments from both the Auditor General and the Comptroller General that their common objective and priority was the removal of the reservations from the Auditor General's Opinion on the financial statements of the Government.

Failure to Consolidate the Financial Statements of Crown Corporations

10. The reservation with respect to the failure to consolidate the financial statements of Crown corporations has appeared almost every year since the first audit Opinion on the 1977-78 financial statements. A resolution to this issue has been proposed by the CICA's recent accounting recommendations. Your Committee noted that the Comptroller General is closely examining the CICA (PSAAC) recommendations and will be putting forward a course of action to Ministers. The Comptroller General underlined the complexity of harmonizing the different accounting policies of Crown corporations, but stated a willingness to overcome these difficulties.

11. Your Committee concludes that the activities of Crown corporations should be included in the 1989-90 Audited Financial Statements of the Government of Canada in the manner recommended by PSAAC.

Unrecorded Liabilities

12. Your Committee noted that the other longstanding reservation, regarding the unrecorded actuarial liability for the indexed portion of government employees' pensions, was addressed in proposed legislation in the last Parliament. In Bill C-33, which died on the Order Paper, the Government committed itself to the recognition of an appropriate actuarial liability. The Comptroller General agreed with the Auditor General that the pension liability could,be booked using the authority provided by Section 63 of the Financial Administration Act.

13. Your Committee concludes that the Government should act on this matter and book an appropriate liability in the 1989-90 Audited Financial Statements of the Government of Canada in the manner recommended by PSAAC

Recommendations

14. **Your Committee recommends that:**

(a) **the Comptroller General and the Deputy Minister of Finance resolve the issues raised by the reservations of the Auditor General in his Opinion on the Government's Audited Financial Statements;**

(b) **the Minister of Finance introduce accounting policy changes in his 1990 Budget for implementation in the 1989-90 Public Accounts that would permit the Auditor General to remove the reservations in his Opinion on the Government's Audited Financial Statements; and**

(c) **the Minister of Finance and the President of the Treasury Board report jointly in writing to your Committee on recommendations (a) and (b) above by March 31, 1990.**

A copy of the relevant Minutes of Proceedings and Evidence (Issues 7, 8 and 13 which includes this report) is tabled.

Respectfully submitted,

LEN HOPKINS,

Chairman.

REPORT TO THE HOUSE

Tuesday, October 10, 1989

The Standing Committee on Public Accounts has the honour to present its

THIRD REPORT

1. In accordance with its permanent Order of Reference contained in Standing Order 108(3)(e), your Committee has considered the Annual Report of the Auditor General for the fiscal year ended March 31, 1988, and, in particular, Chapter 8, the comprehensive audit of the Food Production and Inspection Branch of the Department of Agriculture.

2. The co-operation of the witnesses who appeared before your Committee is acknowledged and appreciated.

3. Your Committee noted the positive response of the Department to the Auditor General's recommendations. In many cases remedial measures are underway and three progress reports updating action taken to date have been provided to your Committee and to the Auditor General.

Food Safety

4. Maintaining and improving the safety of the food production, handling and distribution systems is an important responsibility of the Department. Your Committee noted that Canadian consumers have expressed confidence in the safety of the food supply.

5. The Auditor General called upon the Department to strengthen food inspection practices. The theme of his audit findings was the need to assess risks to human health and safety and allocate resources to the highest risk areas. The Department has undertaken to implement the Auditor General's recommendations and has received reports from advisory bodies, which include industry and consumer group representatives, on risks in the meat hygiene and dairy programs Additional resources have been assigned to meat inspection, while other advisory reports, in areas such as poultry, fruit and vegetables, are due before the end of 1990. Your Committee has also received an update from the Department regarding the completion of a strategy for assigning resources to food testing over the 1989-93 period. Your Committee is encouraged by the Department's progress and looks to the Auditor General's follow-up audit for confirmation of results achieved.

Pesticide Regulation

6. Your Committee is concerned by backlogs in pesticide testing which may pose a threat to human health and the environment. Your Committee heard that many pesticides already registered by the Department require re-testing to meet higher current standards, while new pesticides take three years or more to be registered. In addition, temporary registrations, which are not subject to the same level of testing as permanent ones, are renewed year after year.

7. The Department informed your Committee that it agreed in principle with the Auditor General's recommendations and had taken preliminary action, butthat further action would await the completion of a review of pesticide registration announced by the Minister of Agriculture in March 1989. This review is expected to take 18 months to complete.

8. Your Committee concludes that there is a need for continued progress in addressing backlogs in pesticide testing, notwithstanding the Minister's review, and requests the Auditor General to follow up on the results of the review.

Information for Parliament

9. Since the early 1980s, when the process of reforming the Estimates began with the introduction of Part IIIs for each department and agency, your Committee has expressed concerns about the quality and usefulness to Parliamentarians of the Estimates documents. In the 12th Report (tabled December 17, 1981, 1st Session, 32nd Parliament), which was concurred in by the House, your Committee noted "the need to provide procedures to ensure that the integrity, accuracy and consistency of information (in the Part IIIs) are preserved and maintained." In the same Report, your Committee recognized the role of the Comptroller General in responding to your Committee's concerns in the areas within his mandate.

10. When the Department informed your Committee that more resources had been allocated to the highest priority areas, notably the meat hygiene program, in keeping with the Auditor General's recommendations, your Committee turned to the Department's Part III for details. For such a shift in resources, clear, consistent data on expenditures and person-years, together with an appropriate explanation in the text, might be expected in the Part III. However, the Part IIIs for fiscal years 1987-88, 1988-89 and 1989-90 yielded inconsistent data and an incomplete explanation. For example, an activity identified in one fiscal year disappeared without explanation in the next and a claimed reduction of 105 person-years was not shown. Furthermore, the Auditor General found other examples of inaccurate, ambiguous and incomplete information in his audit of the 1987-88 and 1988-89 Part IIIs of the Department.

Recommendations

11. **Your Committee recommends that:**

(a) **the Department ensure that the 1990-91 and future Part IIIs of the Estimates contain accurate, clear, consistent, and complete information, notably in relation to resource allocation and program results;**

(b) **the Department provide your Committee and the Auditor General with a written progress report regarding improvements in the Part IIIs by March 31, 1990;**

(c) **the Comptroller General respond in writing, by March 31, 1990, to the concerns raised by your Committee and the Auditor General with regards to Part III of the Estimates; and**

(d) **The Auditor General assess the responses to recommendations (b) and (c) above and report his findings to your Committee.**

Control of Animal and Plant Diseases

12. The Auditor General reported an urgent need to amend legislation and regulations governing importation of plant material and animal products. In some cases, in order to facilitate trade, the Department was allowing importation of such goods without the import permits and health certificates required by law. Your Committee is concerned by the threat posed by such practices in terms of the spread of animal and plant diseases. The Department informed your Committee that draft legislation and regulations were in preparation.

Recommendations

13. **Your Committee recommends that the Government:**

(a) **give early consideration to the introduction of amendments to the import control provisions of the Plant Quarantine and Animal Disease and Protection Acts;**

(b) **amend the necessary regulations; and**

(c) **provide your Committee with a response to recommendations 13(a) and (b) above in accordance with Standing Order 109.**

Labour Relations and Training of Inspectors

14. Your Committee was concerned by the Auditor General's findings on employer-employee relations in the food inspection branch. There were unusually high illness rates, a higher utilization of Workers' Compensation and a larger than usual number of grievances in specific plants.

15. Your Committee also noted a need to improve training of food inspectors and plant inspectors at border points. For example, the Auditor General found that veterinary technical inspectors were not provided with in-depth training in food sciences.

16. The Department informed your Committee that increased resources were being devoted to technical training for inspectors and in supervisory skills and interpersonal relations for supervisors. Your Committee will be interested in the findings of the Auditor General's follow-up audit on these matters.

A copy of the relevant Minutes of Proceedings and Evidence (Issue Nos. 9, 10 and 15 which includes this report) is tabled.

Respectfully submitted,

LEN HOPKINS,

Chairman.

REPORT TO THE HOUSE

December 20, 1989

The Standing Committee on Public Accounts has the honour to present its

FOURTH REPORT

1. In accordance with its permanent Order of Reference contained in Standing Order 108(3)(e), your Committee has considered the Annual Report of the Auditor General to the House of Commons for the fiscal year ended March 31, 1989 and, in particular, the audit note contained in Chapter 4, paragraphs 4.71 to 4.79, the Department of Finance--Failure to Plug a Loophole in the Excise Tax Act Results in Increased Federal Sales Tax Rates and could have a Negative Effect on the Equity and Integrity of the Tax System.

2. The co-operation of the witnesses who appeared before your Committee is acknowledged and appreciated.

3. Your Committee noted the responsibility of the Auditor General, under the Auditor General Act, to call attention to anything that he considers to be of a significance and of a nature that should be brought to the attention of the House of Commons, including any cases in which he has observed that the rules and procedures applied have been insufficient to secure an effective check on the assessment, collection and proper allocation of revenues. The Auditor General is the auditor of the accounts of Canada and is empowered to make such examinations and inquiries as he considers necessary to enable him to report as required under his Act.

4. By reporting significant revenue losses, which he estimated at $300 to $350 million per year, arising from certain tax avoidance practices in relation to the federal manufacturers' sales tax, the Auditor General has carried out his statutory responsibilities and informed the House of Commons of a serious matter involving a large sum of public money.

5. Your Committee noted the circumstances surrounding the tax avoidance problem in question. Manufacturers have established marketing companies, in some cases solely to avoid taxes, so that marketing and distribution costs will be absorbed by the marketing company, thus narrowing the base for the application of the federal sales tax. Because the sales tax is levied on the manufacturers' selling price, the tax collected is significantly lower if marketing and distribution costs are excluded from the sale price.

6. Leakage from tax avoidance based on marketing companies was estimated by the Auditor General to amount to several hundred million dollars a year in the period leading up to a Federal Court decision in 1986. This court case was a watershed in such avoidance practices. The applicable anti-avoidance rule was confirmed to be ineffective, and considerable uncertainty was created in the business community. The Department of Finance informed your Committee that large scale avoidance activity of this sort, estimated at $300 to $500 million per year, dated from the 1986 court case.

7. Your Committee wishes to point out that the leakage of taxes was and is continuing. Developments since the 1986 court decision explain why this is so.

8. Your Committee noted that the Department of Finance developed two proposals to deal with the marketing companies problem. Neither proposal was implemented. First, in 1987, in

conjunction with the White Paper on Tax Reform, it was proposed, among other measures, to apply the sales tax to related marketing companies. A consultation process, including deliberations of the House of Commons Standing Committee on Finance and Economic Affairs, found the proposals unworkable and liable to create major new inequities in the market place. The Finance committee recommended the adoption of a specific anti-avoidance measure The Department informed your Committee that it was unable to draft an effective anti-avoidance rule. Instead, in the 1988 Budget, the Department brought forward a more complex revised proposal involving a formula to add back marketing and distribution costs to the manufacturers' tax base. Consultations and the Finance committee then rejected the second proposal because of its complexity, potential legal problems, high compliance costs and the uncertainties it was likely to create in the business community. The Department of Finance estimated one-time compliance and administrative costs of $100 million, based on extensive changes in cost accounting that would have been required. In the 1989 Budget, the measures proposed for the marketing companies problem were withdrawn and a 0.5 per cent increase in the rate of the federal sales tax was put in place to compensate for the revenues being lost.

9. The seriousness of the leakage from the use of marketing companies was recognized by the Department of Finance in late 1987. With indications of substantial revenue losses, it was stated that action to deal with the problem was required in order to prevent severe erosion of sales tax revenues in the near future. While your Committee acknowledges the difficulty of patching up the federal sales tax, a tax which has 22,000 special provisions for only 75,000 taxpayers, the substantial loss of revenues raises a serious concern about the effectiveness of the measures in place to deal with tax avoidance problems.

10. Your Committee noted that serious tax leakage is endemic to the federal sales tax. Continuation of this tax may result in revenue losses from overall avoidance activity of some $2 billion a year. In the opinion of the Department of Finance, the only solution to the problems that plague the current federal sales tax system is the replacement of this tax with a broad-based multi-stage tax. In the fall of 1987, the Finance committee recommended that sales tax reform be undertaken. In response, the Minister of Finance stated that the Government would proceed with the development of a multi-stage tax. The Department of Finance informed your Committee that the Goods and Services Tax will solve the tax leakage problem.

11. Given the very large revenue losses in federal sales tax collection, estimated by the Auditor General to amount to $2.4 billion over the 1981 to 1990 period, your Committee considers that immediate action is necessary to stop the leakage of public funds and that the marketing companies case raises significant issues for the management of the tax system.

12. Tax avoidance problems concern your Committee in a number of ways. First of all, the erosion of the tax base calls for timely measures to stop the drain on public revenues. Once revenue losses become significant, the effectiveness of the tax system in raising revenue is placed in doubt. Secondly, the intent of Parliament in passing tax legislation is thwarted if taxpayers can avoid taxes in unforeseen or unintended ways. Then, there are questions of equity and the effects on attitudes towards voluntary compliance. The tax system becomes increasingly unfair as one group is able to benefit from some flaw in the system while others must pay the tax. In short, tax avoidance may call into question the integrity, equity and effectiveness of Canada's tax laws.

13. Your Committee considers that the system in place to deal with tax leakages needs to be improved. In principle, the Government must act quickly and decisively to deal with an identified tax avoidance problem. The Department of Finance, in coordination with the Department of National Revenue, must ensure that tax avoidance activity is closely monitored and carefully analyzed. There must be a capability in the system to develop effective remedial measures whenever indications of significant revenue loss become apparent. In the design of such remedial measures, compliance and

administrative costs should be taken into account so that proposals are workable and do not impose undue burdens on taxpayers.

Recommendations

14. **Your Committee recommends that:**

(a) **the Government act expeditiously to deal with sales tax avoidance problems;**

(b) **the Department of Finance ensure that tax avoidance is closely monitored and that proposals are put forward to deal with significant revenue losses as soon as possible after these losses become known;**

(c) **the Department of Finance ensure that proposals to deal with tax avoidance are based on an analysis of costs and benefits and do not impose undue compliance costs on taxpayers; and**

(d) **the Minister of Finance respond to your Committee in writing by March 31, 1990, with respect to the foregoing recommendations.**

A copy of the relevant Minutes of Proceedings and Evidence (Issues Nos. 18 and 21, which includes this report) is tabled.

Respectfully submitted,

LEN HOPKINS,

Chairman.

REPORT TO THE HOUSE

Monday, March 12, 1990

The Standing Committee on Public Accounts has the honour to present its

FIFTH REPORT

1. In accordance with its permanent Order of Reference contained in Standing Order 108(3)(e), your Committee has considered the Annual Report of the Auditor General to the House of Commons for the fiscal year ended March 31, 1989 and, in particular, Chapter 27, the Special Audit of Emergency Preparedness Canada (EPC).

2. The co-operation of the witnesses who appeared before your Committee is acknowledged and appreciated.

3. The audit under consideration by your Committee focused on EPC's role in federal peacetime emergency planning. As EPC informed your Committee, the primary responsibility for emergency preparedness lies with the municipal and provincial levels of government.

4. Under the Emergency Preparedness Act, EPC facilitates and coordinates emergency planning among federal departments and agencies, in cooperation with provincial governments. In the event of a disaster, the federal government, through EPC and other departments, provides assistance and coordination to deal with the emergency in accordance with the collective wishes of the province and the municipalities involved.

5. EPC is also responsible for putting in place contingency orders and regulations to deal with the proclamation of a national emergency under the Emergencies Act. By definition, a national emergency overwhelms the capacity of local and provincial authorities.

6. Your Committee noted that EPC was only recently established as a separate department of government with the enactment of the Emergency Preparedness Act in 1988. However, the Auditor General's principal finding, that the process for emergency planning was not sufficiently far enough advanced, related to the progress from the time of the adoption of the federal government's Emergency Planning Order in 1981.

7. Your Committee has concerns both with respect to the progress in national emergency planning and the relationship of EPC with other federal departments.

The Relationship of EPC with Other Departments

8. Your Committee noted that the EPC has no authority to direct the specific planning and preparedness activities of other federal departments. Under the Act, responsibilities for contingencies and plans lie with every minister charged with accountability to Parliament for a government institution.

9. Your Committee is concerned that emergency planning clearly identify who is in charge and that jurisdictional conflicts between federal agencies be avoided. It is essential that the response to a disaster not be delayed by such problems.

10. While EPC assured your Committee that jurisdictional problems occur only rarely and then in the context of the division of responsibilities between federal, provincial and municipal governments, EPC also placed emphasis on the process of designating lead ministers and lead departments for national emergency planning. Such designations of a lead agency arise in connection with national emergency arrangement planning, by virtue of legislation or by decision of the Prime Minister.

11. In connection with the process of designating lead agencies, your Committee noted with concern the Auditor General's finding that there was no master plan for the enactment of orders and regulations to designate lead departments for specific national emergencies under the Emergencies Act. EPC informed your Committee that the adoption of such orders and regulations will become a high priority over the next two years, with initial emphasis on the public welfare and public order parts of the Emergencies Act.

Recommendations

12. **Your Committee recommends that:**

(a) **EPC adopt a formal plan, with milestones to assess progress, to designate lead agencies for specific national emergencies through the adoption of orders and regulations under the Emergencies Act;**

(b) **EPC respond in writing to recommendation 12(a) above by March 31, 1991, including a progress report with respect to the adoption of orders and regulations; and**

(c) **the Auditor General assess the aforementioned response and report his findings to your Committee.**

13. With respect to its working relationship with other government departments, EPC informed your Committee that it leads, encourages, co-ordinates and liaises with them concerning their preparedness efforts and takes measures to avoid gaps and overlaps in federal emergency planning. While the Auditor General found improved interdepartmental co-ordination, your Committee also noted his finding that EPC could improve guidance to departments by identifying departmental roles and required levels of response for specific national emergencies.

Recommendations

14. **Your Committee recommends that:**

(a) **EPC improve guidance to departments by identifying departmental roles and required levels of response for specific national emergencies;**

(b) **EPC respond in writing to recommendation 14(a) above by March 31, 1991; and**

(c) **the Auditor General assess the above response and report his findings to your Committee.**

National Emergency Planning

15. Your Committee attaches great importance to the development of comprehensive and well-founded plans for national emergencies such as catastrophic earthquakes and chemical or nuclear accidents. EPC acknowledged a leadership role in preparing Canadians to deal with such disasters.

16. Your Committee recognizes the complex planning environment facing EPC: ten provinces (including regional and municipal governments), two territories and about 30 major federal departments and agencies. EPC stated that its jurisdiction did not extend to the audit and evaluation of emergency plans at all levels of government across Canada.

17. Your Committee wished to gain an appreciation of the adequacy of the measures in place to respond to national emergencies.

18. EPC emphasized the role of the first responder to a disaster. In addition to co-ordination at the federal level, EPC encourages the development of civil emergency plans at the first response level, within the province. EPC also assists in the evaluation and improvement of plans and in exercising the plans regularly to ensure that advice and assistance is provided to keep plans up to date.

19. The Auditor General raised concerns about the state of planning for national emergencies. Although fourteen federal departments are involved in the planning for national emergency arrangements under the Emergencies Act, the Auditor General found that EPC had available only one plan relating to a large-scale national peacetime disaster. This was the draft plan relating to a major earthquake in B.C. EPC informed your Committee that plans were now in place, province by province, for most other forseeable major emergencies, such as nuclear and chemical accidents.

20. Your Committee sought assurances that the interim plan relating to a possible catastrophic earthquake on the lower mainland of B.C. be completed and tested as soon as possible. EPC stated that the federal side of the National Earthquake Plan, which was being developed for B.C. but which would be applicable to high-risk earthquake zones elsewhere in Canada, was largely complete but that negotiations involving the B.C. and Alberta governments would take place in the near future in order to ensure that federal and provincial plans were complementary.

21 Your Committee is also greatly concerned by the Auditor General's finding that the emergency planning process at the federal level is not far enough along. Both in his 1987 and 1989 audits, the Auditor General noted an absence of milestones and deadlines for the completion and testing of national emergency plans. Your Committee considers that all departments charged with planning for national emergencies should file specific planning documents with EPC, outlining targets and milestones for the completion and testing of their emergency plans. Your Committee noted that a major national emergency preparedness exercise, CANATEX 90, is scheduled for late 1990.

Recommendations

22. **Your Committee recommends that:**

(a) **EPC complete the National Earthquake Plan in conjunction with the provincial authorities involved as soon as possible;**

(b) **EPC work with the departments involved in National Emergency Arrangements to ensure that goals and deadlines are established for the completion and testing of all emergency plans;**

(c) **the Government ensure that the departments responsible for National Emergency Arrangements provide EPC with achievable dates for the completion of their emergency plans and adhere to the milestones set for completion and testing of these plans;**

(d) **EPC respond to your Committee in writing with respect to recommendation 22(a) by March 31, 1990 and with respect to recommendation 22(b) by March 31, 1991;**

(e) **the Government respond to recommendation 22(c) above in accordance with S.O. 109; and**

(f) **the Auditor General assess the response to recommendation 22(b) above and report his findings to your Committee.**

A copy of the relevant Minutes of Proceedings and Evidence (Issues Nos. 22 and 24, which includes this report) is tabled.

Respectfully submitted,

LEN HOPKINS,
Chairman.

APPENDIX D

REPORT ON QUARTERLY REPORTS

REPORT ON THE AUDIT OF QUARTERLY REPORTS ON CROWN CORPORATIONS TABLED BY THE PRESIDENT OF THE TREASURY BOARD

Introduction. The Financial Administration Act requires the President of the Treasury Board to lay quarterly reports before each House of Parliament concerning the timing of tabling, by appropriate ministers, of annual reports and summaries of corporate plans and budgets of Crown corporations subject to the reporting provisions of Part X of the Act.

These quarterly reports allow Parliament to hold the appropriate ministers (and, ultimately, the Crown corporations) accountable for providing it, within the relevant statutory deadlines, with information required under the Financial Administration Act. Accordingly, each quarterly report is required to indicate the annual reports and the summaries of corporate plans, capital budgets and operating budgets (and amendments to them) that were to be tabled before each House during the quarter; the time at, before, or within which they were required to be tabled; and the time they were actually tabled.

Scope. I am required by subsection 152(2) of the Financial Administration Act, to attest to the accuracy of the information contained in the quarterly reports on Crown corporations tabled by the President of the Treasury Board. Accordingly, I have examined the quarterly reports for the four quarters indicated below:

	Tabled in Parliament	
Quarter Ended	House of Commons	Senate
30 June 1989	6 November 1989	7 November 1989
30 September 1989	6 November 1989	7 November 1989
31 December 1989	9 March 1990	13 March 1990
31 March 1990	30 May 1990	31 May 1990

My examination included a review of the systems and procedures used by Treasury Board to monitor the tabling of the summaries and annual reports in each House of Parliament, a verification of the information contained in each of the quarterly reports, and such other tests and procedures as I considered necessary in the circumstances.

Conclusion. I have concluded that the four quarterly reports listed above contain all the required information about the timing of tabling, by the appropriate ministers, of Crown corporations' annual reports and summaries (and amendments to them) of corporate plans, capital budgets and operating budgets, and in my opinion, the information contained in the quarterly reports is accurate in all significant respects.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

OTTAWA, 7 September 1990

APPENDIX E

EXTERNAL ADVISORS TO THE OFFICE OF THE AUDITOR GENERAL

External Advisors to the Office of the Auditor General

The Office of the Auditor General uses external advisors extensively in its work.

The Auditor General has two groups of personal advisors: a Panel of Senior Advisors with 12 members and an Independent Advisory Committee with 17 members. These are listed at the end of this appendix.

In addition, Audit Advisory Committees are established for every comprehensive audit, whether government-wide or of a department, agency or Crown corporation. They are a source of advice for the Principal and the Assistant Auditor General responsible for the audit. The Office considers these committees to be an essential element in the management of comprehensive audits.

These Committees, comprised of both internal and external advisors, provide a forum in which the audit team responsible for conducting a given audit can present its plans, potential contentious issues and alternative reporting strategies. They meet at critical points in the audit process to review the approach and the findings.

Internal membership of Advisory Committees normally includes the Deputy Auditor General and the Assistant Auditor General who have responsibility for the audit report, as well as two other senior Office managers.

External advisors are chosen for expertise which is particularly relevant to the audit concerned. External advisors include persons with line management experience in similar programs, representatives of interest goups served by the program, experts in the discipline being audited and auditors who have audited similar programs in other jurisdictions. Advisors provide strategic and technical advice (for example, on the scope and criteria of the audit) and critically scrutinize the logic and fairness of the assessments and recommendations that the audit team develops.

For the 1990 Report, the Office has used 56 external advisors. They represent a number of professions and positions in federal government, provincial government, the private sector and universities. These appear below. Some are listed twice, once under their profession and again under their position title.

8	lawyers
3	engineers
3	economists
1	political economist
1	industrial and organizational psychologist
9	university professors in related areas
1	broadcaster
2	human resource management consultants
4	senior partners in accounting firms
8	former executives in federal and provincial governments
11	former deputy ministers and assistant deputy ministers in federal and provincial governments
1	current deputy minister in a provincial government
12	chief executive officers of private sector firms
10	executives in private sector firms

3	former ambassadors/high commissioners
3	generals
1	former provincial premier
3	former parliamentarians at the federal and provincial levels
1	senior official in a labour organization
1	senior official from a provincial audit office
2	former senior officials from the federal audit office
1	former city chief of police
2	former Royal Canadian Mounted Police staff members
1	former airlines executive
1	expert in urban management

Advisors to the Auditor General

Membership of the Panel of Senior Advisors

Kenneth G. Belbeck, F.M.C.
Peat Marwick Stevenson & Kellogg

Marcel Caron, O.C., F.C.A
La Presse Ltée

Gordon H. Cowperthwaite, F.C.A
Canadian Comprehensive Auditing Foundation

Alan J. Dilworth, F.C.A.
Deloitte & Touche

William A. Farlinger, F.C.A.
Ernst & Young

Kenneth S. Gunning, F.C.A.
Pannell Kerr MacGillivray

Ralph W. Karthein, C.A.
IBM Canada Ltd.

Giles R. Meikle, F.C.A.
Deloitte & Touche

Edward W. Netten, F.C.A.
Price Waterhouse

Donald H. Page, F.C.G.A.
Don Mills, Ontario

Kenneth R. Stevenson F.C.A.
Coopers & Lybrand

W. Ross Walker, F.C.A.
Peat Marwick Thorne

Membership of the Independent Advisory Committee to the Auditor General on Government Accounting and Auditing Standards

Morley P. Carscallen, F.C.A.
Coopers & Lybrand

L. Denis Desautels, F.C.A.
Ernst & Young

Kenneth M. Dye, F.C.A. (Chairman)
Auditor General of Canada

James L. Goodfellow, F.C.A.
Deloitte & Touche

Douglas D. Graham, C.A
Pannell Kerr MacGillivray

Inger Hansen, Q. C.
Ottawa, Ontario

John J. Kelly, C.A.
Canadian Institute of Chartered Accountants

Ronald E. Kiggins, C.A.
Peat Marwick Thorne

Membership of the Independent Advisory Committee to the Auditor General on Government Accounting and Auditing Standards (cont'd)

David Kirkwood
Canadian Mediterranean Institute

Henry E. McCandless, C.A..(Secretary)
Office of the Auditor General of Canada

Ronald B. Robinson, F.C.M.C.
Abt Associates of Canada

Lawrence S. Rosen, Ph.D., F.C.A.
Mintz & Partners Ltd.

Edward R. Rowe, C.A. (Vice-Chairman)
Office of the Auditor General of Canada

Leonard Rutman, Ph.D.
Price Waterhouse Management Consultants

William R. Sloan, F.C.A.
Arthur Andersen & Co.

George F. Windsor, B.Eng., LL.B.,
Osler, Hoskin & Harcourt

Donald R. Yeomans, C.M.A., F.S.M.A.C.
Ottawa, Ontario